

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

FINANCIAL STATEMENTS

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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

	SEPTEMBER 30 2007	DECEMBER 31 2006
	(unaudited) \$	(audited) \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	224,490	13,987
Taxes receivable	<u>13,565</u>	<u>110</u>
	238,055	14,097
Mining properties (Note 3)	975,500	-
Deferred exploration expenses (Note 4)	<u>1,500</u>	<u>-</u>
	<u>1,215,055</u>	<u>14,097</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	19,854	32,325
Note payable without interest	17,500	-
Due to related party	-	11,782
Promissory notes due to related parties	<u>-</u>	<u>183,534</u>
	<u>37,354</u>	<u>227,641</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock (Note 5)	23,117,511	21,813,127
Warrants	355,000	-
Contributed surplus	532,794	460,854
Deficit	<u>(22,827,604)</u>	<u>(22,487,525)</u>
	<u>1,177,701</u>	<u>(213,544)</u>
	<u>1,215,055</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 September 30 / Nine-month periods ended September 30

(unaudited)	2007 \$	2006 \$	2007 \$	2006 \$
EXPLORATION COST				
Accommodation	-	-	28	-
Expediting	-	-	-	1
Maps, printing and drafting	-	-	13	841
Project management fees	-	-	67	88
Property acquisition costs	-	-	-	953
Consulting	1,500	-	1,500	-
Salaries and wages	-	-	802	259
INCREASE OF DEFERRED EXPLORATION EXPENSES	1,500	-	2,410	2,142
GENERAL EXPLORATION EXPENSES	-	-	(910)	(969)
WRITE-OFF OF EXPLORATION EXPENSES	-	-	-	(219)
WRITE-OFF OF MINING PROPERTY EXPENSES	-	-	-	(954)
	1,500	-	1,500	-
BALANCE, BEGINNING	-	-	-	-
BALANCE, ENDING	1,500	-	1,500	-

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

CONSOLIDATED STATEMENTS OF LOSS

Three-month periods ended September 30 / Nine-month periods ended September 30

(unaudited)	2007 \$	2006 \$	2007 \$	2006
INTEREST REVENUE AND OTHER	2,845	-	3,564	-
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ADMINISTRATIVE EXPENSES				
Bank charges	681	77	1,056	333
Foreign exchange loss	-	12	428	47
Insurance	-	-	16,000	1,700
Consulting	-	3,100	-	3,100
Professional fees	46,056	-	182,364	12,627
General administrative expenses	13,402	681	34,457	5,651
Shareholder's communication	301	1,131	3,331	3,586
Transfer agent and regulatory fees	<u>1,775</u>	<u>3,860</u>	<u>33,157</u>	<u>28,715</u>
	<u>62,215</u>	<u>8,861</u>	<u>270,793</u>	<u>55,759</u>
OTHER EXPENSES (INCOME)				
Stock-based compensation	35,970	-	71,940	22,262
General exploration expenses	-	-	910	969
Write-off of exploration expenses	-	-	-	219
Write-off of mining property	-	-	-	954
Forgiveness of amount due to related party	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,154)</u>
	<u>35,970</u>	<u>-</u>	<u>72,850</u>	<u>(45,750)</u>
NET LOSS	<u>95,340</u>	<u>8,861</u>	<u>340,079</u>	<u>10,009</u>
BASIC AND DILUTED LOSS PER SHARE	<u>0.02</u>	<u>0.00</u>	<u>0.07</u>	<u>0.00</u>

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

Three-month periods ended September 30 / Nine-month periods ended September 30

	2007	2006	2007	2006
(unaudited)	\$	\$	\$	\$
BALANCE, BEGINNING	(22,732,264)	(22,543,005)	(22,487,525)	(22,541,857)
Net loss	<u>(95,340)</u>	<u>(8,861)</u>	<u>(340,079)</u>	<u>(10,009)</u>
BALANCE, ENDING	<u><u>(22,827,604)</u></u>	<u><u>(22,551,866)</u></u>	<u><u>(22,827,604)</u></u>	<u><u>(22,551,866)</u></u>

X-TERRA RESOURCES CORPORATION (FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)**CONSOLIDATED CONTRIBUTED SURPLUS AND WARRANTS**

Three-month periods ended September 30 / Nine-month periods ended September 30

(unaudited)	2007	2006	2007	2006
	\$	\$	\$	\$
CONTRIBUTED SURPLUS				
BALANCE, BEGINNING	496,824	460,853	460,854	438,591
Options granted under the plan	<u>35,970</u>	<u>-</u>	<u>71,940</u>	<u>22,262</u>
BALANCE, ENDING	<u>532,794</u>	<u>460,853</u>	<u>532,794</u>	<u>460,853</u>
WARRANTS				
BALANCE, BEGINNING	355,000	-	-	-
Warrants issued during the period	<u>-</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 September 30 / Nine-month periods ended September 30

(unaudited)	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(95,340)	(8,861)	(340,079)	(10,009)
Items not involving cash:				
Stock-based compensation	35,970	-	71,940	22,262
Write-off of exploration expenses	-	-	-	219
Write-off of mining property	-	-	-	954
Net change in non-cash operating working capital items	<u>(52,864)</u>	<u>12,944</u>	<u>(25,926)</u>	<u>(177,844)</u>
	(112,234)	4,083	(294,065)	(164,418)
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FINANCING ACTIVITIES				
Cash inflow relating to capital stock and warrants	-	-	560,000	1,375
Convertible debt	-	-	-	150,000
Note payable	17,500		17,500	
Due to related party	-	-	(11,782)	-
Share issuance expenses	<u>(500)</u>	<u>-</u>	<u>(34,650)</u>	<u>-</u>
	17,000	-	531,068	151,375
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INVESTING ACTIVITIES				
Property acquisition and maintenance costs	(25,000)	-	(25,000)	(953)
Deferred exploration expenditures	(1,500)	-	(1,500)	(219)
Reclamation deposit returned	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,300</u>
	(26,500)	-	(26,500)	10,128
	-----	-----	-----	-----
Cash increase (decrease)	(121,734)	4,083	210,503	(2,915)
Cash, beginning	<u>346,224</u>	<u>10,452</u>	<u>13,987</u>	<u>17,450</u>
Cash, ending	<u><u>224,490</u></u>	<u><u>14,535</u></u>	<u><u>224,490</u></u>	<u><u>14,535</u></u>

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

(unaudited)

1 - NATURE OF OPERATIONS AND GOING CONCERN

The Company is in the business of acquiring, exploring and developing mining properties. At September 30, 2007, the Company hold the Villedieu and Lindsay properties.

As at September 30, 2007, the Company had cash and cash equivalents of \$224,490 and working capital of \$200,701.

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 PROPERTIES

	Balance as at December 31, 2006	Addition	Diminution	Balance as at September 30, 2007
Villedieu (100 %)	-	544,500	-	544,500
Lindsay (100%)	<u>-</u>	<u>431,000</u>	<u>-</u>	<u>431,000</u>
	<u>-</u>	<u>975,500</u>	<u>-</u>	<u>975,500</u>

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

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

(unaudited)

4 – DEFERRED EXPLORATION EXPENSES

	Balance as at December 31, 2006	Addition	Diminution	Balance as at September 30, 2007
Villedieu (100 %)	-	600	-	600
Lindsay (100%)	<u>-</u>	<u>900</u>	<u>-</u>	<u>900</u>
	<u>-</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>

5 - 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 properties	1,250,000	950,500
Debt settlement	327,739	183,534
Share issuance expenses	<u>-</u>	<u>(34,650)</u>
Balance as at September 30, 2007	<u>6,216,672</u>	<u>23,117,511</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 September 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>(372,400)</u>	1.19
Balance as at September 30, 2007	<u>184,900</u>	1.11

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

(unaudited)

5 - CAPITAL STOCK (continued)

Options outstanding	Price \$	Weighted average remaining contractual life
7,500	1.50	0.3
12,400	1.00	2.0
<u>165,000</u>	1.10	4.7
<u>184,900</u>		
Options exercisable		
<u>102,400</u>		

Warrants

The following table summarizes the information relating to warrants as at September 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 September 30, 2007	<u>1,000,000</u>	0.70
Warrants outstanding		
	Price \$	Expiry Date
1,000,000	0.70	May 28, 2009

6 - 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 September 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

Also, Manex Resources Group, a company which Lawrence Page (a director of X-Terra) is a director, has charged some administration services for a total amount of \$4,475 from January 1 to September 30, 2007.

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