

X-CAL RESOURCES LTD.



2006

Front Cover Photo: *Historic Photo shows where mining stopped in 1996 with the pit confined by infrastructure. Photo also shows a portion of the heap leach pads, waste dumps and the tailings pond. Reconciliation studies based on blast hole data from mining operations indicate that a significant amount of gold was not recovered and may be above ground on site. Part of the 2006 work program will look at quantifying this possible resource.*



The current pit lake at Sleeper resulted when mining operations at the property ceased. A major exploration program has been recommended for the property.



Historic Photo of the Sleeper Mine Property looking SE. The property covers 30 square miles of the Battle Mountain Trend. Approximately 1/2 of the property is visible in the photo. Significant reclamation has occurred since this photo.

TABLE OF CONTENTS

| | |
|---|----|
| Corporate Profile | 2 |
| Nevada Gold Projects | 2 |
| Highlights | 2 |
| Directors' Report | 3 |
| Message to the Shareholders | 4 |
| The Properties | 5 |
| Management Discussion & Analysis | 15 |
| Auditors' Report | 36 |
| Consolidated Balance Sheets | 37 |
| Consolidated Statements of Operations and Deficit | 38 |
| Consolidated Statements of Cash Flows | 39 |
| Notes to Consolidated Financial Statements | 40 |
| Corporate Information | 54 |

FIGURES

| | |
|---------|--|
| Page 2 | Nevada Property Location Map |
| Page 5 | Nevada Property Location Map |
| Page 6 | Photo of X-Cal Team |
| Page 7 | Sleeper Project Claim map and Sleeper Priority Targets |
| Page 8 | Comparison of Mineral Systems at Sleeper and El Peñón |
| Page 9 | Heap Leach Pads at Sleeper |
| Page 10 | X-Cal Cortez Area Properties |
| Page 11 | X-Cal Cortez Area Properties |
| Page 12 | Mill Creek Drill Test Program |
| Page 13 | Reese River Property Location Map |
| Page 14 | Environmental Assurance Bond |
| Page 34 | Entrance to X-Cal's Sleeper Gold Project |
| Page 52 | Inspecting Mine Site Maintenance Equipment at Sleeper |
| Page 53 | Core Storage Facility at Sleeper |

Note: The contents of this report have been reviewed by Robert Thomason, MSc and Larry Kornze, P.Eng who are Qualified Persons as defined by National Instrument NI-43-101.

CORPORATE PROFILE

X-CAL RESOURCES LTD. is a gold exploration company listed on the Toronto Stock Exchange (TSX) with properties located in Nevada, USA.

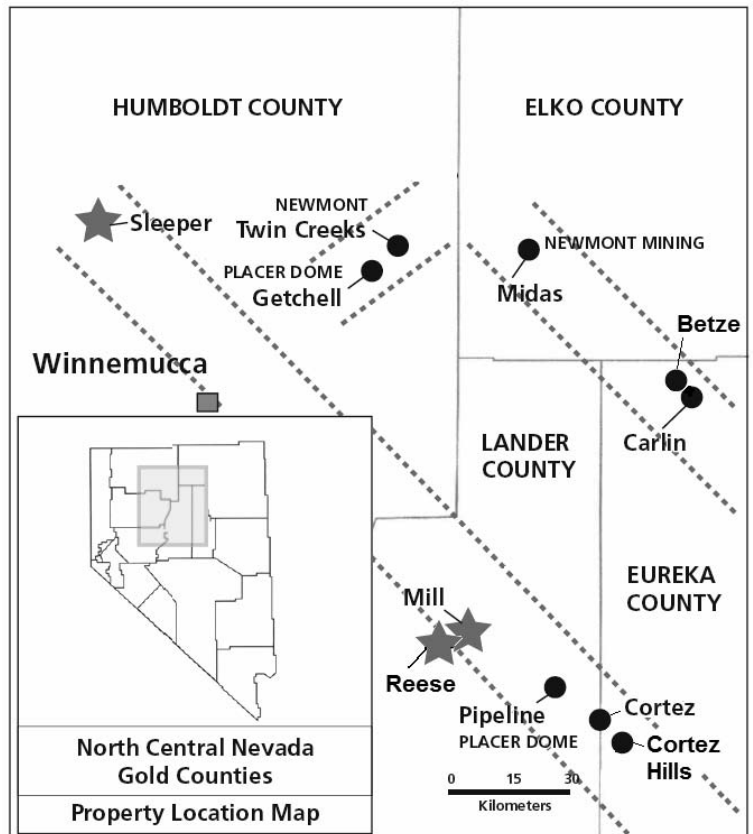
NEVADA GOLD PROJECTS

The state of Nevada ranks ahead of all but two countries in the world (South Africa and Australia) for gold production. As a geologic and political environment for discoveries and the building of new mines, north-central Nevada is a prime location.

HIGHLIGHTS

X-Cal acquired 100% interest in the Sleeper Gold Property by purchasing the 50% interest that was held by a joint venture partner. The transaction achieved a long sought after goal and paves the way for a major exploration program.

X-Cal's two early stage Cortez Area properties are located on lower plate windows. The Cortez Area is a hot spot for the exploration industry.



DIRECTORS REPORT

X-CAL has three 100% owned Nevada Gold Properties.

The discovery potential at Sleeper is our primary exploration objective. The targets at Sleeper are defined and validated by a team of senior geologists with track records for discovery.

The potential to recover gold and silver from above ground material at Sleeper is being evaluated as a stepping stone that may benefit the project.

Current NI-43-101 reports for the Sleeper Gold Property and the Mill Creek Gold property can be found @ www.x-cal.com. Shareholders are encouraged to read these comprehensive documents.

A Technical report on the early stage Reese River (Horse Mountain Window) Property is being prepared. The Reese River Property is subject to a “back in” agreement with Barrick Gold.

The reserve replacement requirements of the gold industry and the changing political environments globally make North Central Nevada particularly attractive. The infrastructure is in place in this state with a mining friendly environment.

On behalf of the Board of Directors

Shawn Kennedy
President

MESSAGE TO THE SHAREHOLDERS

Your company is debt free and cash positive.

The long sought after goal of consolidating the Sleeper Gold Project 100% with X-Cal is an important building block for this project.

The exploration team that has gathered around X-Cal and its Nevada Gold properties is a real asset. The combined experience of the geologic team in conjunction with your board of directors is a practical business framework for decision-making and progress.

Sleeper merits a major exploration program as described in the current NI-43-101 report for the property. The geologic team is working with a massive database and leading edge software to further document and refine the Sleeper drill targets. Preparation in the form of compilation and data review prior to launch of the major program is a cost effective common sense approach. Preliminary drill holes have been authorized for the Range Front Area.

A separate work program with the objective of confirming and defining the above ground gold at Sleeper in terms that will meet NI-43-101 requirements has been authorized.

Funding for the entire major exploration program at Sleeper is subject to a number of variables that will be addressed as this year progresses.

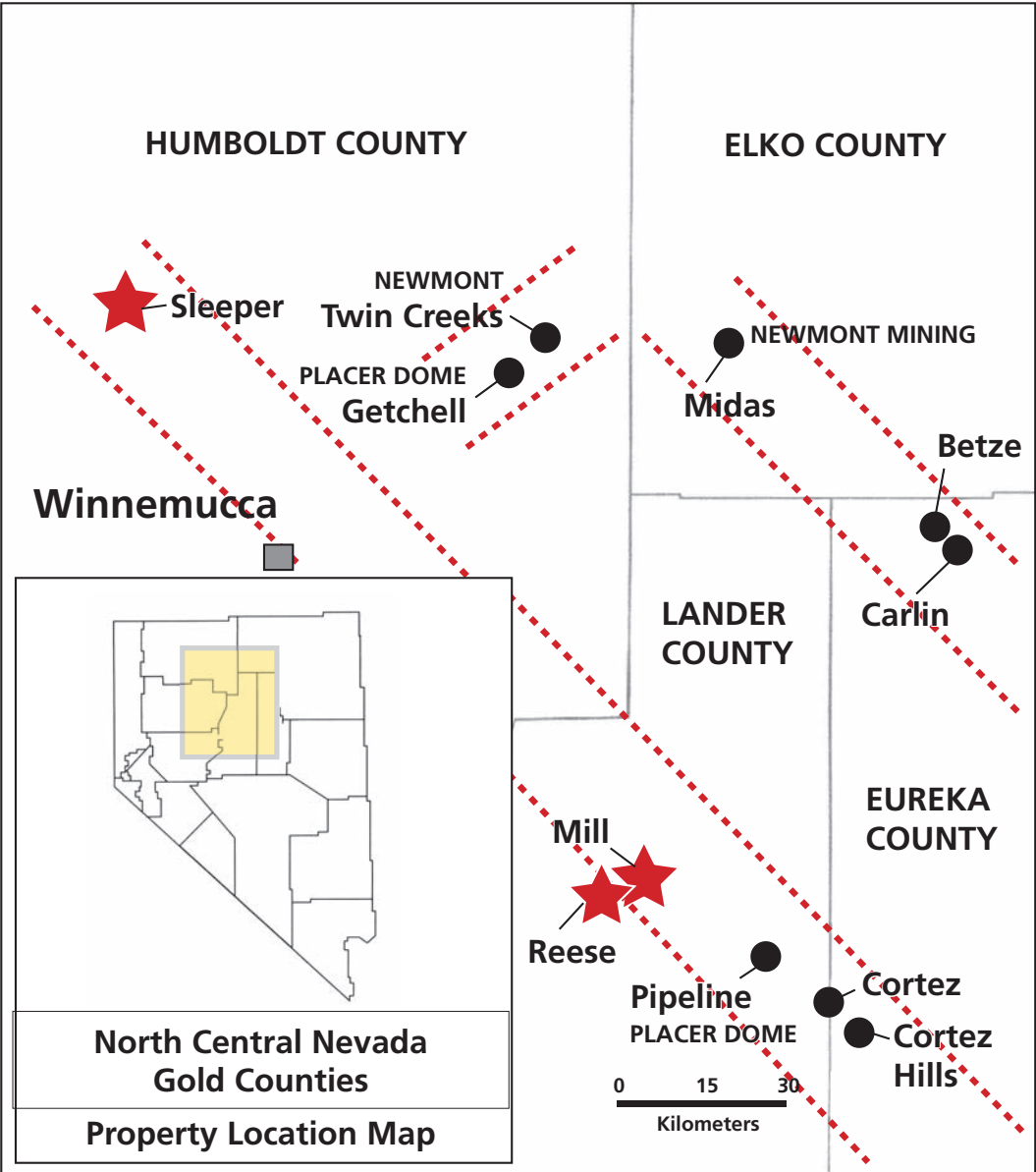
Our early stage Cortez Area properties will also be advanced during the current year.

New shareholders participated along with existing shareholders in the financing that brought control of Sleeper to X-Cal. We welcome you to our loyal shareholder base, encourage you to vote at the Annual Meeting and to call in throughout the year.

Shawn Kennedy
President

THE PROPERTIES

X-CAL has three gold properties located on the Battle Mountain Trend in Nevada.



Sleeper Gold Project

Humboldt County, Nevada, USA

The acquisition of New Sleeper's 50% interest in the Sleeper Joint Venture, at a cost of \$5 million and 10 million shares of X-Cal common stock, was the major event of the year to date. X-Cal employed a team of consultants to look at the potential of the property. To achieve objectivity with our analysis, we employed top independent international consultants as part of the review team. Some of the team members are pictured below at Sleeper during the review.

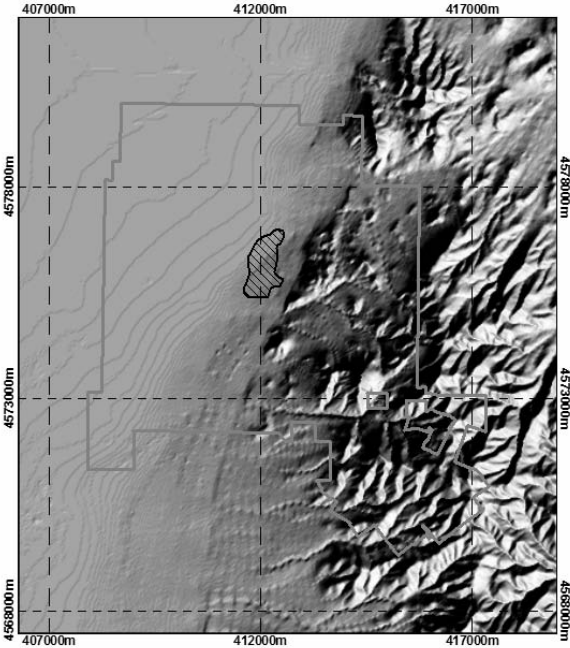


*Winthrop Rowe MSc Richard Sillitoe PhD Shawn Kennedy Pres. Larry Martin Geo Keith Blair MSc
Larry Kornze P.Eng Vic Chevillon MSc James Wright MSc Ken Snyder PhD*

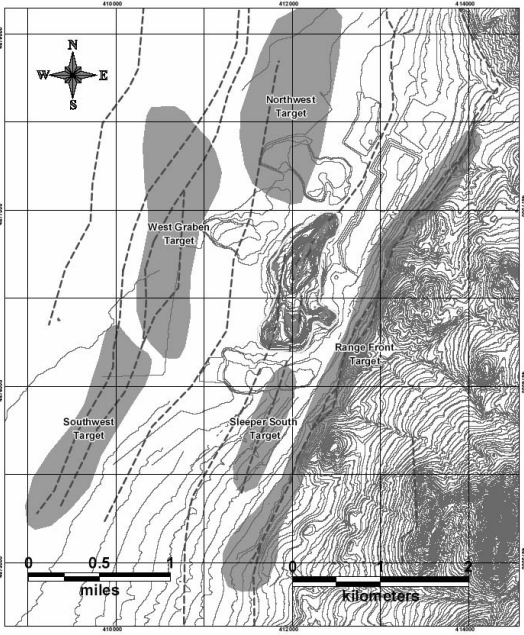
Reports by Dr. Richard Sillitoe and Dr. Jeffrey Hedenquist were important elements of the analysis which encouraged management to pursue consolidation of the Sleeper Gold Project 100% with X-Cal. Shareholders are encouraged to read the papers by both of these independent consultants and to review the NI-43-101 Technical Report on the Sleeper Gold Project by Thomason, Kornze and Rowe.

The exploration potential of the Sleeper Gold Project which covers 30 square miles centered around the historic Sleeper Gold mine is the primary reason for the project. The team pictured above and other qualified professionals are involved in planning the exploration of Sleeper and our other Nevada properties.

The figures below show the claim block and priority targets at Sleeper. The March 2006 NI-43-101 report recommends a \$15 million program to drill the priority targets in the Sleeper District.



Sleeper Project Claim Map (30 square miles)

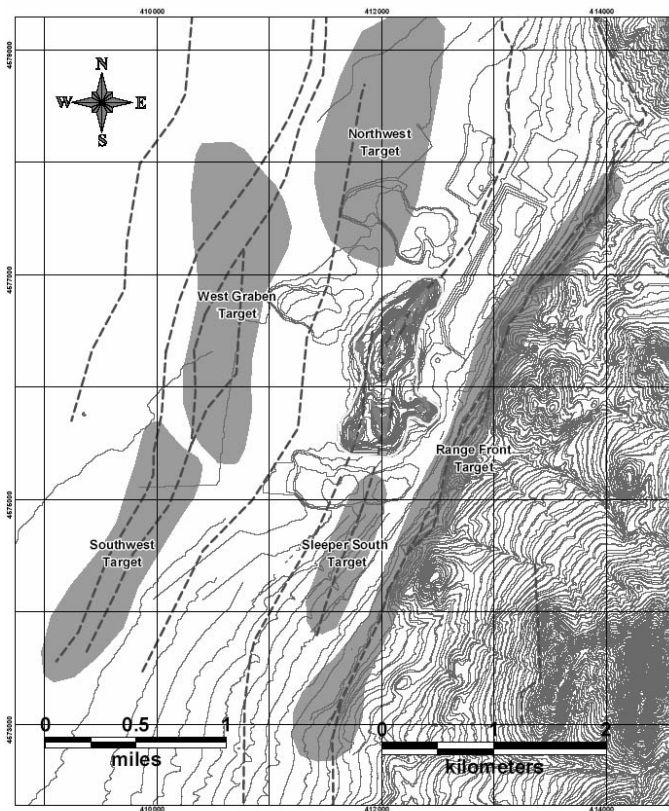


After Stillbø (2006)

Sleeper Priority Targets

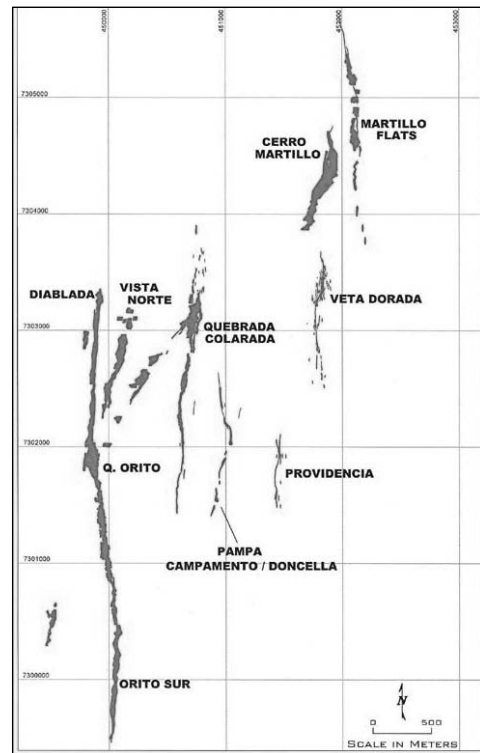
It is apparent that commercially viable mineral systems in Nevada and elsewhere in the world produce multiple ore bodies, such as have occurred on Carlin and Battle Mountain trends. The report by Dr. Richard Sillitoe compares the mineral system that we see at Sleeper with the Ken Snyder Midas Mine in Nevada and with El Peñón in Chile. Dr. Sillitoe played an important role in the discoveries made by Meridian Gold at El Peñón, as did Dr. Ken Snyder in the making of his namesake mine in (the Ken Snyder Midas Mine) Nevada. Their input to our planning process is appreciated.

The figure below shows our priority targets in the Sleeper District, next to the vein system at El Peñón.



After Sillitoe (2006)

Sleeper



El Peñón

Our team includes professionals with a variety of talents such as Larry Kornze P.Eng who was involved in the making of the Betze ore body for Barrick in Nevada and Robert Thomason MSc who has recently come to us from Florida Canyon Gold mine. The practical expertise of these two men will assist X-Cal as we revisit the near term potential to recover gold and silver from already mined, above ground material at Sleeper.

Historic high density drill data from more than 300,000 blast holes that were drilled on twelve-foot centers, during mining operations at Sleeper is being used to reconstruct the precious metal content of the original Sleeper Gold Deposit. The first objective is to determine the number of ounces of gold and silver that may be above ground onsite at Sleeper by comparing the precious metal content of the mined portion of the deposit with production records. Separate bulk-sampling programs for the Sleeper Tailings and the Heap Leach Materials are being planned to follow the reconciliation study. The next objective will be to bring the study to a level that can be published.



Approximately 49 million tons of above ground material exists in the heap leach pads at Sleeper. This gold bearing material is in part covering some exploration targets. In light of higher gold prices, a new study will ask if some of this material can be reprocessed at a profit.

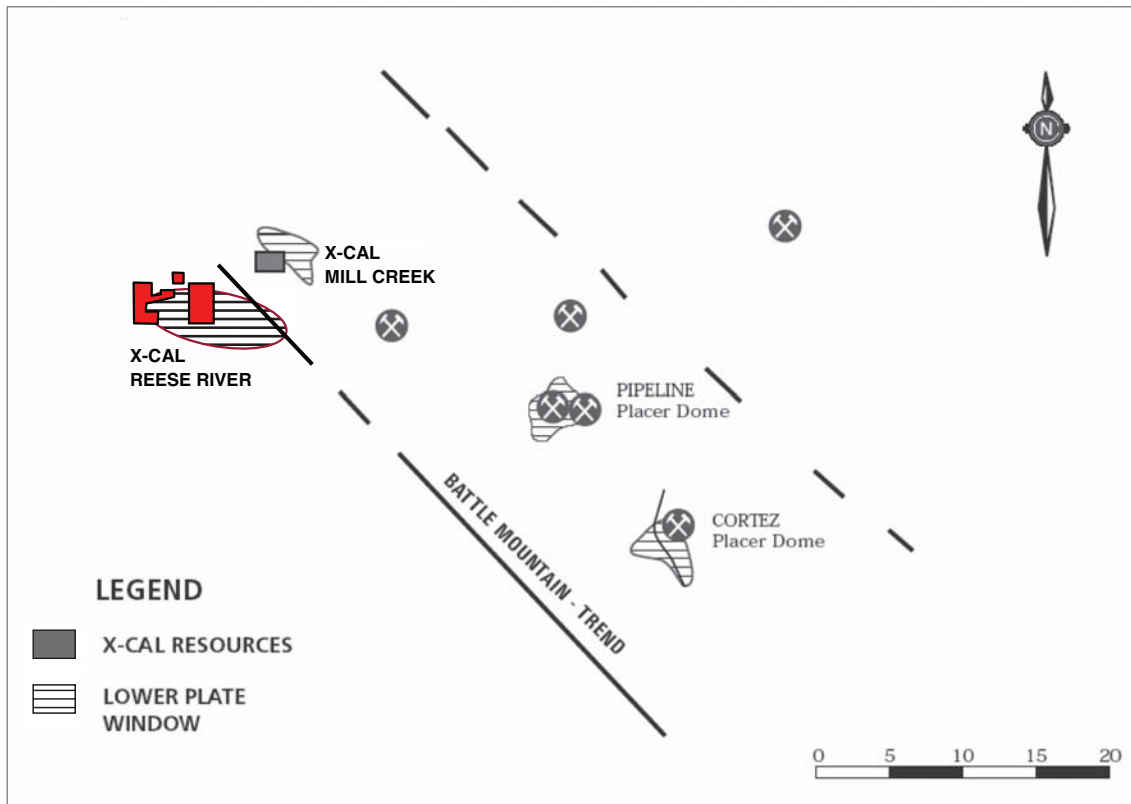
X-CAL RESOURCES LTD.

Exploration for new gold deposits in the Sleeper District is the primary focus of X-Cal. Earlier work produced some encouraging drill hole intercepts such as: 179.5 ft averaging .35 oz per ton Au (10.89 gpt Au) with 7 oz per ton Ag (217.7 gpt Ag) from the West Wood area. Details of this and other work and the targets to be tested can be reviewed in the March 2006 NI-43-101 report @ www.x-cal.com.

All permits for the recommended drill testing of the priority targets at Sleeper are in place.

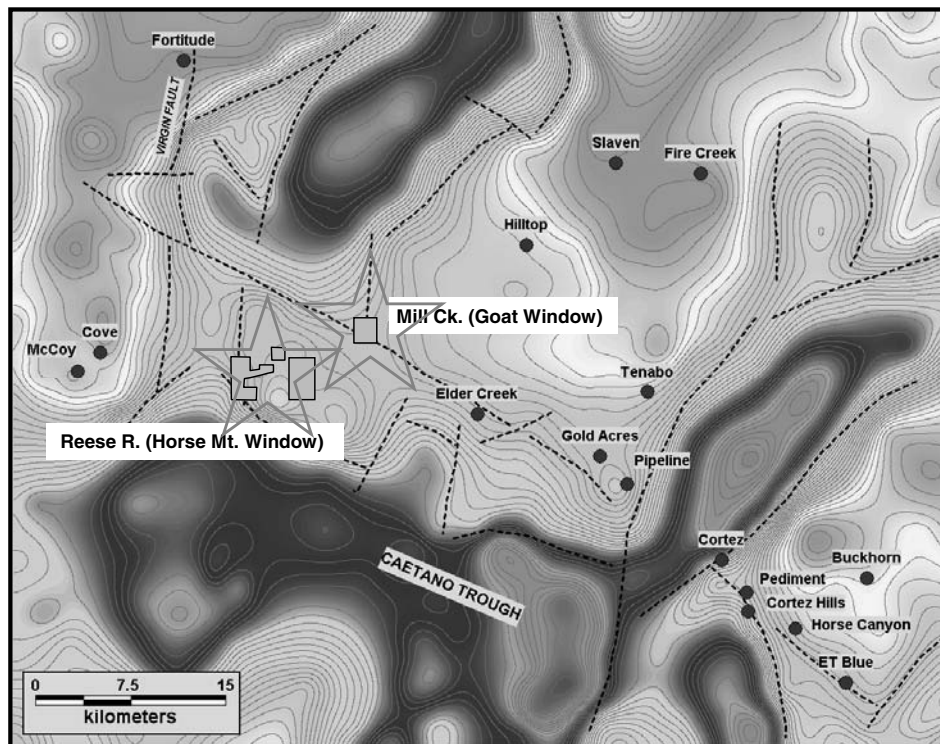
CORTEZ AREA GOLD PROPERTIES

X-Cal has two gold projects in the CORTEZ AREA as pictured below. Both of the properties are located on favorable lower plate windows.



X-Cal Cortez Area Properties

USGS BOUGUER GRAVITY



X-Cal Cortez Area Properties

Mill Creek Gold Property

Goat Window

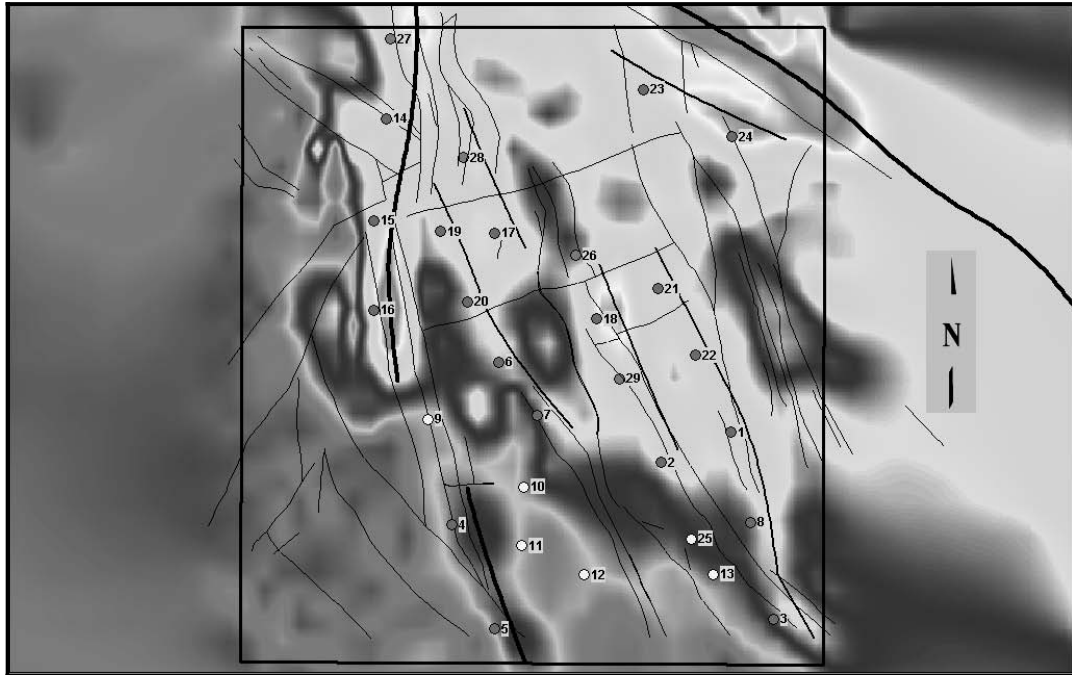
Lander County, Nevada

Cortez Area

X-Cal has been investing in processing a Plan of Operations Permit for this property. At the time of this report we are approximately 1 year into the application process, which is aimed at creating room for a drill program to continue testing of the property. While we do not know the outcome of the permitting process, we expect that we are near to completion and hope that the result will allow for the next stage of exploration of this property.

A NI-43-101 report on the Mill Creek Property documents the reasons for continuing exploration at Mill Creek. The report can be found on the X-Cal website @ www.x-cal.com.

Gold mineralization, accompanied by a favorable structural and geologic environment, exists at Mill Creek.



The above figure shows the recommended drill pattern for testing of the Mill Creek (Goat Window) Gold Property.

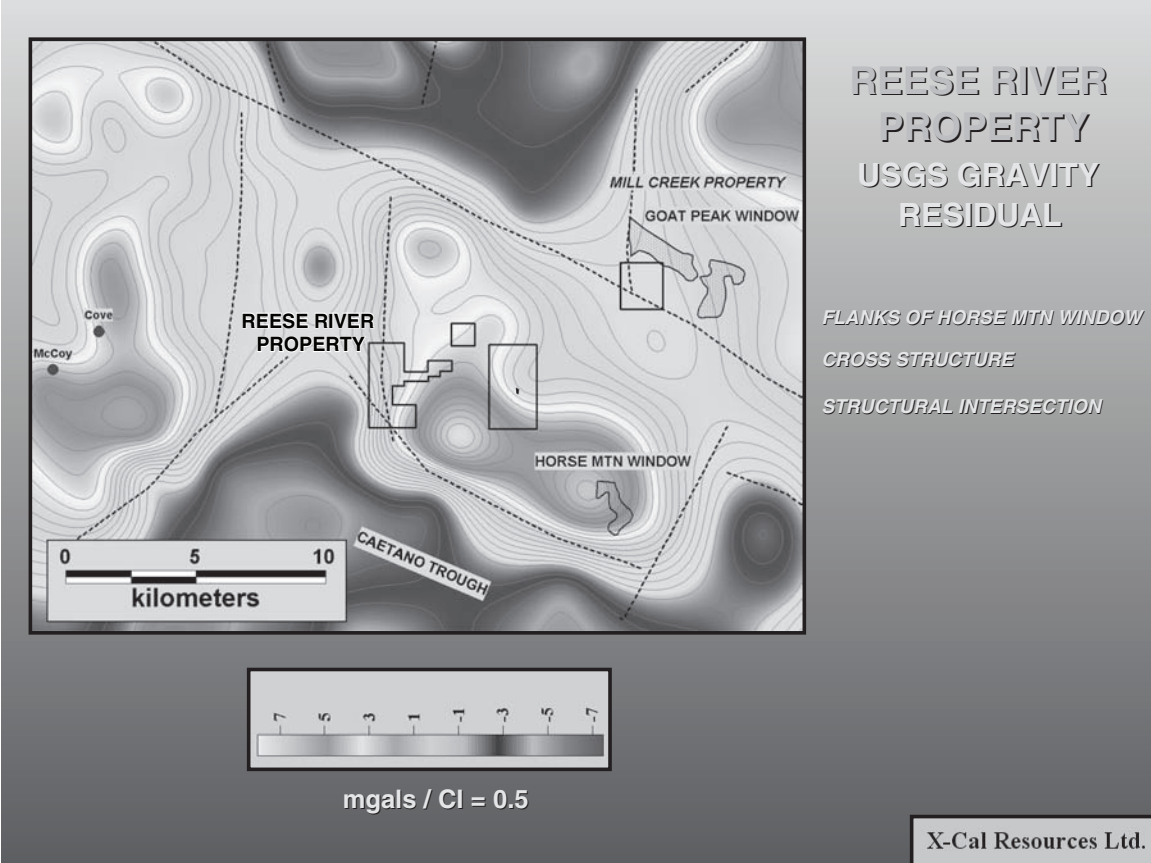
Reese River Pediment Property

Horse Mountain Window

Lander County, Nevada

Cortez Area

X-Cal acquired the Reese River (Horse Mountain Window) Property from Placer Dome. Barrick Gold has inherited the agreement. The project was conceived and generated by Placer. X-Cal has 100% of the 3,000 acre property and must spend a minimum of \$200,000 this year to retain title. The maximum amount of the year-one budget must be agreed between the two companies. At the end of year one Barrick has a one time right to “back in” to 51% by tripling X-Cal’s year one expenditure or go to a 2% NSR. If Barrick backs in, they can earn an additional 19% by funding all work to feasibility.



The Reese River Property outlined above consists of three separate claim blocks located on the flanks of the Horse Mountain Window, with a total area of approximately 3,000 acres.

The Reese River project is early stage and covers part of the north and western flanks of the Horse Mountain Window. A work program that will meet the year one commitment for this property has been designed and is being implemented.



*Responsible environmental stewardship is a priority.
Sleeper's environmental assurance bond is an important asset.*

MANAGEMENT DISCUSSION AND ANALYSIS
(FOR THE YEAR ENDED MARCH 31, 2006)

This year end Management Discussion and Analysis (“MD & A”) reviews the operating results and financial position of X-Cal Resources Ltd. (“X-Cal” or the “Company”) and compares the financial results for the fourth quarter ending March 31, 2006 with those of the corresponding quarter of 2005. It is also an update to the Company’s annual MD&A for the year ended March 31, 2005 and should be read in conjunction with the audited March 31, 2006 Consolidated Financial Statements and related Notes. The reader is encouraged to review the Company’s financial statements in conjunction with this document copies of which are available on the SEDAR website: www.sedar.com.

The Company prepares its financial statements in accordance with generally accepted accounting principles in Canada (“Canadian GAAP”). All dollar figures included therein and in the following discussion and analysis are quoted in Canadian dollars unless otherwise noted.

The information in this Management Discussion and Analysis contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The forward-looking statements are made as of June 20, 2006.

All references to “2006” refer to the year ended March 31, 2006, and all references to “2005” refer to the year ended March 31, 2005, unless otherwise noted.

General

The Company is an active resource exploration company focused on the identification and delineation of gold and silver mineral resources on its Sleeper and Mill Creek properties in Nevada, USA. X-Cal has controlled these properties since 1993 and 1992, respectively. The Company has recently entered into a letter agreement with Placer Dome to acquire a third Nevada gold project, the Reese River Pediment project. Title was transferred to the Company upon completion of a detailed agreement. The Company

depends on private placements and joint ventures to fund its corporate activities. These proceeds are used for investigation and appraisal of targeted mineral zones on its concessions, the administration and maintenance of the Company's operations, and compliance with all regulatory requirements.

Predictions about the direction of the gold price either upwards or downwards are just that: predictions. However, the opinion of management is that the industry must replace its reserves. Nevada is one area where the investment in infrastructure has already been made. Nevada is a prime location for reserve replacement where low cash cost ounces have historically been found. Higher gold prices, if they occur, would be a bonus. Nevada, in terms of geology and resources, political risk, and cost-efficiency, is a practical area in which to focus exploration activity. Therefore the Company concentrates the majority of its time, effort, and resources on mineral exploration opportunities in this gold producing state.

The Company's mandate is to develop our gold properties. Management, directors and consultants are applying their combined experience and expertise to exploration of the Company's Nevada gold properties.

Funding the Company's exploration work programs is dependent on certain factors, not all of which are under the Company's control. The general liquidity of the markets, which are in turn dependent on the price of gold and other commodities, is a major factor affecting the Company's on-going objectives.

The potential profitability of the Sleeper, Mill Creek, Reese River Gold Projects and other gold mining projects is dependent upon the market price of gold, silver and other concentrates produced and changes in currency exchange rates and the Canadian and United States dollars. The prices of precious and base metals and currency exchange rates have fluctuated significantly and are affected by numerous factors beyond the Company's control, including but not limited to, international economic and political conditions, global and regional consumption patterns, speculative trading activities, levels of supply and demand, availability and costs of metal substitutes, metal stock levels maintained by producers and others, inventory carrying costs and inflation and interest rates. These factors affect the price of precious and base metals, and therefore the economic viability of the

Company's mining interests, and they cannot accurately be predicted.

Sleeper Gold – Joint Venture

Note: All references to years, 2006 – 2005 – 2004 refer to work programs carried out within the calendar year.

The Sleeper Gold Project is a 30 square mile gold district located in Humboldt County, Nevada. A 50% interest in the Sleeper project was acquired by New Sleeper Gold Corporation, a publicly traded reporting issuer (NWS.V) in return for providing initial funding to the New Sleeper Gold LLC joint venture (“Sleeper Joint Venture”) (50% X-Cal/50% New Sleeper). A National Instrument 43-101-compliant technical report has been submitted by each party. The technical reports can be viewed on the companies' web sites and are also available on SEDAR at www.sedar.com.

The Company contributed its interest in the Sleeper Gold Project to the Sleeper Joint Venture and New Sleeper Gold Corporation capitalized the Sleeper Joint Venture with US \$20,000,000 to explore the Sleeper Gold Project. The Sleeper Joint Venture company treasury was independent of both companies and managed on behalf of the Sleeper Joint Venture by New Sleeper Gold Corporation. The Sleeper Joint Venture was operated by a committee composed of members from each company. The work programs were managed by New Sleeper.

The exploration program for the years 2004 and 2005 and early 2006, included drilling of 82,240 feet of core and reverse circulation drilling in 2004, and 22,524 feet of drilling and reverse circulation drilling in 2005. Extensive exploration targeting studies and surveys were initiated and substantially completed late in the two year program and most of the study results and data modeling were completed after termination of the latest drilling program in August 2005. The results of the studies has established a better definition of exploration targets. The surveys are described in detail in the NI-43-101 Technical Report (March 2006) filed on SEDAR.

Readers are further encouraged to view the Company's news releases which include plan maps and assay results which are available on X-Cal Resources Ltd. web site at <http://www.x-cal.com> and on the SEDAR website at www.sedar.com.

The Company assembled a panel of professionals to independently review the Sleeper Gold Project and to make recommendations for ongoing work. Two of the panel members, Dr. Richard Sillitoe and Dr. Jeffrey Hedenquist provided the Company with their expert views in the form of “Observations on the Sleeper Gold Project, Nevada” by Dr. Jeffrey Hedenquist and a separate paper “Exploration Potential of the Sleeper Project, Nevada” by Dr. Richard H. Sillitoe. These papers are not NI-43-101 reports and should be considered a supplement to NI-43-101 documents for the project. The NI-43-101 Technical Report (March 2006) authored by Mr. Robert E. Thomason, M.Sc., L.Geol. and co-authored by Larry Kornze, B.Sc., P.E. and Mr. Winthrop A. Rowe, M.Sc., C.P.G. has also been completed and is available for review.

Both Dr. Sillitoe’s report and the NI-43-101 Technical Report (March 2006) were filed on SEDAR. Dr. Jeffrey Hedenquist’s report was not filed on SEDAR but can be found in its entirety at the Company’s website www.x-cal.com.

The Company, relying on the aforementioned reports and other information, determined it was in the shareholders best interests to consolidate the Sleeper Gold Property into a single entity with the Company becoming the sole operator and funding source of the property. To that end, the Company entered into an agreement with New Sleeper Gold Corporation. See “Items Subsequent to Year End” at the end of this document.

Future Exploration

Exploration priorities for the Sleeper Gold Property are expected to focus on five priority mine scale targets located near the Sleeper Mine. All five of the priority targets occur along three structural corridors parallel to the Sleeper Mine historic mineralization. None of the five targets have been adequately tested or tested at all, in prior drill programs. Current and ongoing three-dimensional modeling of geochemical data, additional geophysical interpretations and refinements, and detailed compilation on Gemcom and Gocad will help set drilling priorities. However, the targets are well defined at present. Drill testing is to involve angled drill hole fences with overlap at bedrock depths. Drill orientation of these current targets is to be east-west to optimize crossing of key structural trends. Each target will have 2 to 4 drill

fences to test the target concepts.

The Company is committed to the success of the Sleeper Gold Project. We see the potential of the Sleeper Gold District for new economic discoveries as described in Dr. Sillitoe's paper. A realistic exploration budget to address the targets in Dr. Sillitoe's paper with the objective of break-through discovery is estimated at US \$15 million. The minimum next phase budget is estimated at US \$5 million.

Mill Creek Property

The Mill Creek Gold Property is owned 100% by X-Cal. The property, located in Lander County, Nevada, is an early stage (grass roots) gold project. The Mill Creek property is located in an area where commercial gold deposits, such as Placer Dome's Cortez and Pipeline projects are known to occur. The area is also known as the "Cortez Area" within the Battle Mountain-Cortez-Eureka Trend. A US\$1,600,000 exploration work program that included drilling, mapping, sampling and geophysics has been completed by X-Cal on the Mill Creek Property.

Richard Redfern, M.Sc., who is a qualified person as defined by NI-43-101, has provided the Company with a NI-43-101 Technical Report of the Mill Creek Gold Property dated February 18, 2005, which has been filed with regulators. Investors are encouraged to read the complete report for a comprehensive view of the early stage gold project which is available for viewing on the SEDAR website www.sedar.com and the Company's website www.x-cal.com.

On June 29, 2005 the Company announced that it had entered into an option agreement with Placer Dome U.S. Inc., ("Placer Dome") (subsequently acquired by Barrick Gold), which gave Placer Dome a short-fused option to purchase the Company's Mill Creek Gold property. The option expired on January 16, 2006.

Two holes were attempted, neither of which reached their intended depths due to difficult drilling conditions. The Mill Creek drill targets described by X-Cal in its July 11, 2005 news release were not tested by the current work. The Plan of Operations application filed by X-Cal is under review, and if approved, will allow for drill sites throughout the target areas and will

facilitate the next phase of exploration.

Reese River Property

The Company has now entered into a formal agreement with Placer Dome to jointly explore in the Reese River Pediment, three claim blocks totaling 3,000 acres located in Lander County, Nevada. Title of the claims has been transferred from Placer Dome to the Company. The Company has agreed to carry out and fully fund a minimum US \$200,000 drilling program developed by both parties, prior to September 30, 2006. Placer Dome has a one time right to expend triple the Company's expenditures in years two and three to earn back a 51% interest in the properties.

SUMMARY

As part of financing plans for 2006 exploration, the Company will include budgets for both of its early stage, Cortez Area properties (Mill Creek/Goat Window and Reese River/Horse Mountain Window). However, the Sleeper Gold Project which is an advanced exploration project will remain the primary focus of the Company.

Snowbird Property

In 2004 the Snowbird property was sold to a private company (Omineca Gold Ltd.) by the Company for \$1,600,000. The Company retains a 2% net smelter return royalty on the property until it receives \$1,600,000 including annual cash payments and all advance royalty and net smelter return royalty payments. The Company also retains the right to reacquire any portions of the property that Omineca abandons that were previously owned by the Company.

Results of Operations

X-Cal is in the business of exploring for, and where warranted, developing gold property interests. The Company has no producing properties, and consequently no sales or revenues.

The following table summarizes selected financial data from the Company's audited year end financial information for the year ended March 31, 2006 and 2005.

| | 2006 | 2005 |
|--|---------------|---------------|
| Total revenue excluding foreign exchange | \$ 119,139 | \$ 190,726 |
| Net loss for the period | \$ 1,531,072 | \$ 1,788,542 |
| Loss per share | \$ 0.02 | \$ 0.02 |
| | | |
| Cash and term deposits | \$ 1,289,270 | \$ 4,310,404 |
| Total assets | \$ 21,854,297 | \$ 23,033,057 |
| Total liabilities | \$ 659,656 | \$ 965,379 |
| Total shareholders' equity | \$ 21,194,641 | \$ 22,067,678 |
| | | |
| Cash dividends per share | \$ Nil | \$ Nil |

Included in the audited consolidated financial statements for 2006 is the Company's 50% share of the net assets and expenses of the Sleeper Gold LLC ("NSG LLC") as at and for the period from inception to March 31, 2006. Please refer to Note 4(a) of the "Notes to the Consolidated Financial Statements" for March 31, 2006 for a detailed listing of the NSG LLC's net assets, and liabilities incorporated into X-Cal's audited consolidated financial statements.

During the year ended March 31, 2006, the Company recorded a net loss of \$1,531,072 or \$0.02 per common share (2005: \$1,788,542 or \$0.02 per common share).

Interest income earned in the year ended March 31, 2006 from cash and short-term monetary investments was \$107,139 (2005 – \$178,726) of which \$59,790 is attributable to X-Cal's 50% share of the NSG LLC joint venture. The remaining \$47,349 was generated from X-Cal's cash on hand. This decrease was due to lower cash balances on hand throughout the period in 2006 compared to 2005.

X-CAL RESOURCES LTD.

The following table outlines general and administrative expenditures attributable directly to the Company and those attributable to the Sleeper Joint Venture from the audited financial information for the years ended March 31, 2006 and 2005.

| Years ended March 31, | 2006 | | | 2005 | | |
|--------------------------------------|----------------------------|-----------------------------|--------------------|----------------------------|-----------------------------|--------------------|
| | X-Cal Resources Ltd. | Sleeper Joint Venture | Total | X-Cal Resources Ltd. | Sleeper Joint Venture | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounting & Audit | 54,855 | 24,753 | 79,608 | 80,750 | 17,445 | 98,195 |
| Amortization | 29,565 | | 29,565 | 31,658 | | 31,658 |
| Investor Relations | 37,272 | | 37,272 | 89,793 | | 89,793 |
| Insurance | 54,254 | 176,031 | 230,285 | 41,542 | 190,970 | 232,512 |
| Shareholder communication | 78,133 | | 78,133 | 81,433 | | 81,433 |
| Legal | 44,528 | | 44,528 | 43,021 | | 43,021 |
| Office & other | 17,488 | 29,582 | 47,070 | 29,347 | 9,757 | 39,104 |
| Rent | 31,203 | 18,496 | 49,699 | 27,437 | 14,792 | 42,229 |
| Salaries & consultants & contractors | 242,923 | 101,118 | 344,041 | 216,736 | 186,656 | 403,392 |
| Stock based compensation | 385,335 | | 385,335 | 301,838 | | 301,838 |
| Regulatory fees | 41,663 | | 41,663 | 44,861 | | 44,861 |
| Telecommunications | 15,947 | 5,795 | 21,742 | 17,954 | 21,774 | 39,728 |
| Travel | 53,001 | 27,026 | 80,027 | 59,638 | 69,653 | 129,291 |
| TOTAL | \$1,086,167 | \$382,801 | \$1,468,968 | \$1,066,008 | \$511,047 | \$1,577,055 |

General and administrative expenses in 2006 for the year ended March 31, 2006 were \$1,468,968 (2005 -\$1,577,055). The Company recorded an overall decrease in costs the only notable increase being attributable to an increase in stock-based compensation.

For the year ended March 31, 2006, X-Cal recorded an unrealized foreign exchange loss of \$119,192 (2005 – loss of \$332,451). This loss was generated primarily by the downward fluctuation of the US dollar during the periods compared.

Other differences between the amounts incurred in 2006 and 2005 reflect normal variances in business activities from year to year.

Summary of Quarterly Results

The following is a summary of unaudited quarterly financial information for the Company's fiscal years (fiscal year end March 31) as indicated.

| 2006 | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR | TOTAL |
|------------------|----------------|--------------------------|--------------------------|----------------|--------------|
| Interest income | \$33,326 | \$23,632 | \$35,143 | \$15,038 | \$107,139 |
| Net loss | \$234,993 | \$379,324 ⁽¹⁾ | \$278,389 ⁽¹⁾ | \$638,366 | \$1,531,072 |
| Loss per share* | \$0.003 | \$0.005 | \$0.004 | \$0.008 | \$0.02 |
| 2005 | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR | TOTAL |
| Interest income | \$45,099 | \$47,523 | \$82,837 | \$3,267 | \$178,726 |
| Net loss | \$48,972 | \$558,961 | \$641,670 | \$538,939 | \$1,788,542 |
| Loss per share* | \$0.001 | \$0.007 | \$0.008 | \$0.007 | \$0.02 |
| 2004 | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR | TOTAL |
| Interest income | \$7,540 | \$5,666 | \$5,136 | \$49,696 | \$68,038 |
| Net loss | \$340,570 | \$145,142 | \$555,563 | \$691,382 | \$1,732,657 |
| Loss per share** | \$0.05 | \$0.002 | \$0.01 | \$0.005 | \$0.03 |

*Basic, **Basic and diluted

(1) includes prior period adjustment for timing of expense recognition

While the information set out in the foregoing table is mandated by National Instrument 51-102, it is management's view that the variations in financial results that occur from quarter to quarter are not particularly helpful in analyzing the Company's performance. It is in the nature of the business of junior exploration companies that unless they sell a mineral interest for a sum greater than the costs incurred in acquiring such interest, they have no significant net sales or total revenue. Because the majority of our expenditures consist of exploration costs that are capitalized, our quarterly losses usually result from costs that are of a general and administrative nature.

Significant variances in the Company's reported loss from quarter to quarter most commonly arise from three factors that are difficult to anticipate in advance or to predict from past results: (i) decisions to write off deferred

exploration costs when management concludes that there has been an impairment in the carrying value of a mineral property, or the property is abandoned, (ii) the granting of incentive stock options, which results in the recording of amounts for stock-based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given quarter, and (iii) increased costs directly related to financing activities of the Company.

General and administrative expenses for the three months ended March 31, 2006 were \$659,934 (2005 - \$179,608). The substantial increase in expenses is attributable to stock-based compensation recorded during the quarter \$385,335 (2005 – Nil).

Other differences between the amounts incurred in 2006 and 2005 reflect normal variances in business activities from year to year.

Liquidity and Capital Resources

As at March 31, 2006, the Company had cash and short-term investments of \$1,289,270 (2005 – \$4,310,404) of which \$23,522 (2005 -\$1,463,968) is the Company's 50% share of the Sleeper Joint Venture cash balances. At March 31, 2006 the Company held \$1,234,521 in cash, guaranteed investment certificates and/or term deposits with the Bank of Montreal. The Company holds an additional \$2,177 in marketable securities.

As at March 31, 2006, the Company had a working capital balance of \$1,433,325 (2005 – \$4,261,511). Of this amount a negative working capital amount of (\$291,565) is attributable to the Sleeper Joint Venture which, when excluded leaves a working capital balance of \$1,255,941 to fund the Company's cash calls for the joint venture, independent exploration activities and general operating expenses. The decrease in working capital reflects continued expenditures in mineral exploration and no financing activities by the Company in 2006 and 2005.

In 2006 the Company issued no common shares (2005 -Nil) in private placements however, the Company did receive an advance subscription of \$168,000 in 2006 (see Items Subsequent to Year End below) (2005 – Nil); no common shares were issued for the exercise of options (2005 – Nil) so the Company received no proceeds in 2006 (2005 – \$Nil); and the Company

had no shares issued for the exercise of warrants and accordingly received no proceeds (2005 – Nil).

Contractual property acquisition and holding costs for 2006 were \$50,000 (2005 – \$Nil). Previously, future advance royalty payments due under the Sleeper Gold Project were paid by the joint venture; they will now be the sole responsibility of the Company.

Exploration and property costs in 2006 were \$2,157,412 (2005 – \$6,734,288). Of that amount \$1,872,360 (2005 – \$4,655,982) was incurred on the Sleeper Gold property and funded by the Sleeper Joint Venture and by a cash call contribution of \$580,631 attributable to the Company in 2006. Additionally, \$247,825 (2005 – \$2,078,306) was spent on the Mill Creek Property funded by the Company. The Company has incurred nominal expenses on this property during the period and has received \$61,575 as an option fee from Placer Dome's option on the Mill Creek Property (see Mill Creek Property contained in this document). The Company further incurred \$37,227 (2005 – Nil) on the newly optioned Reese River Property. Under the option the Company has committed to expending a minimum of US \$200,000 in exploration activities on the property.

Commitments

Office Lease

The Company leases office space in Vancouver until July 31, 2007, under which it must pay \$26,187 annually as its share of base rent and operating costs.

Management Agreements

The Company has entered into a five year Employment Agreement dated September 1, 2004 whereby it will pay an administrative manager \$72,000 per annum. Currently, by mutual agreement between the parties, the employee is receiving \$36,000 per annum as payment in full for services provided. Should the Company terminate the agreement or should the Company have an effective change of control it will be liable for payment of one year's salary at the full rate of \$72,000.

The Company has an employment contract with its President. Under the terms of that contract, remuneration is \$120,000 per annum reviewable on October 1st of each year, when such remuneration may be increased but not decreased. The contract provides that, in the event of termination by the Company, the President shall receive three times the annual amount of salary in the year of termination plus US \$150,000.

Related Party Transactions

For the year ended March 31, 2006, the Company paid legal fees of \$46,202 (2005 -\$26,607), to a law firm of which a director of the Company is a partner. The Company also paid an aggregate of \$34,690 (2005 – \$33,815) in consulting fees to two directors of the Company. In 2005 Company paid an aggregate of \$30,000 for the year (2005 - \$13,000) in directors and committee fees.

All of the above transactions and balances 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.

Critical Accounting Estimates and Significant Accounting Policies

For a detailed summary of the Company's significant accounting policies, the reader is directed to Note 2 of the Notes to the Audited Consolidated Financial Statements, March 31, 2006 and 2005 included herein and available on SEDAR www.sedar.com.

Principals of Consolidation

The consolidated financial statements and information contained therein include the accounts of the Company and X-Cal U.S.A. Inc., its wholly-owned subsidiary. The Company's interest in the Sleeper Joint Venture, through which it carries on its principal mineral exploration activities, is accounted for using the proportionate consolidation method.

Mineral Properties

X-Cal has adopted the policy of deferring acquisition and exploration

costs relating to its mineral property interests. The Company reviews the status of its mineral property interests on a regular basis. Expenditures relating to properties, which have been abandoned or are considered uneconomic in the foreseeable future, are written off. Had the Company adopted a policy of expensing all exploration costs in the period they were incurred, X-Cal's asset base, shareholders' equity, and loss for the year would be materially different.

When properties are acquired under agreements requiring future acquisition payments to be made at the sole discretion of the Company, those future payments, whether in cash or shares, are recorded only when the Company has made or becomes obligated to make the payment or issue the shares.

When properties are sold under agreements requiring future purchase payments to be made at the sole discretion of the purchaser, those future payments, whether in cash or shares, are recorded only when the purchaser has made or becomes obligated to make the payment or to issue the shares.

Reclamation and Environmental Costs

The Company is subject to the laws and regulations relating to environmental matters in jurisdictions in which it operates, including those relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its existing properties and properties in which it previously had an interest.

The Company adopted the new standards for accounting for reclamation and environmental obligations as set out in Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110. Those standards require that the fair value of the Company's reclamation and environmental obligations be recognized in the financial statements as a liability in the period in which the obligation is assumed on acquisition or is incurred in exploration of properties. The fair value of the liability is initially recorded at the discounted value of expected future cash outlays to satisfy the obligations, with a corresponding increase to mineral property interests. The liability is adjusted at the end of

each period to reflect changes in the present value of the estimated future cash outlays underlying the obligation. The Company records that increase in the carrying amount of the obligation as accretion expense.

Previously, reclamation and environmental obligations were accrued on an un-discounted basis at the time of acquisition of properties or as obligations were incurred in exploration activities. This change in accounting policy was applied retroactively.

As a result of the change in accounting standards, previously reported reclamation and environmental obligations as at March 31, 2004 decreased by \$1,358,777, with a corresponding decrease in mineral property interests; there was no effect on operations or net loss for 2004 or 2003.

Stock-Based Compensation

The Company follows the recommendations of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards be measured and recognized using a fair value based method.

Financial Instruments

The Company has various financial instruments including cash and term deposits, funds held in trust, deposits and payables and accruals. The carrying value of all financial instruments approximates their fair values.

For further detail on the Financial Instruments, refer to page 42 of the Notes to the Consolidated Financial Statements included herein.

Outlook

Exploration Expenditures

The gold production industry has consolidated and continues to face the need

for reserve replacement, as predicted in previous annual reports. The Company has assembled and documented the Sleeper Gold Project over a period of years beginning with the first land acquisitions in the area in December 1993. The Sleeper Joint Venture (50% X-Cal/50% New Sleeper Gold Corporation) under the direction of New Sleeper as operator of the Joint Venture has yet to make the break through discovery that shareholders have been anticipating for this project. The Sleeper Joint Venture had utilized a team to carry out exploration work at Sleeper which resulted in a large volume of new data which can be used to target future work.

The Company has successfully acquired the 50% interest that New Sleeper Gold Corporation holds in the joint venture New Sleeper Gold LLC (see Items Subsequent to Year End below). The Company is solely responsible for continued exploration of the property and has assembled what it feels to be an experienced team of professionals to carry on current exploration programs as recommended in the NI-43-101 Technical Report (March 2006). The Company has currently budgeted \$1.3 million to begin implementation of its exploration program. The Company will seek to raise additional financing to fund the recommendations in the Technical Report (March 2006) as the next phase exploration program.

The Mill Creek Property is located in the Cortez Joint Venture Area of Nevada where Placer Dome Inc. has announced new discoveries. The general area is now the subject of increased exploration activity by several major and junior companies. During the period the Company announced that it had entered into an option agreement with Placer Dome U.S. Inc., which gave Placer a short-fused option to purchase the Company's Mill Creek Gold property for a non-refundable signing fee of US \$50,000. The option was not exercised.

As part of forward planning for the Mill Creek Property, X-Cal has begun an application for a Plan of Operations type of permit, which will allow for comprehensive drill testing at Mill Creek in 2006. If the Plan of Operations Permit application is successful, it could facilitate continued exploration during 2006.

A detailed Reese River agreement with the Company and Placer Dome has been completed. The work program for the project will be agreed upon based on recommendations of a technical team composed of both Placer Dome and

the Company's personnel. The Company has committed to fund a minimum of US \$200,000 of drilling work prior to September 30, 2006. As of the date of this report the work program is being planned for this property.

Potential for Corporate Developments

The Company is continually evaluating potential transactions and corporate opportunities which could improve the Company's relative position, either by exposing it to prospective new areas, or by seeking alliances or partnerships in order to investigate its properties more cost effectively. This could include the addition of new properties via acquisitions, mergers or joint ventures, or the seeking out of corporate partners.

Risks and Uncertainties

Risks related to the Mining Exploration Industry Generally

The Company is a gold exploration company and is exposed to a number of risks and uncertainties that are common to other companies in the mineral exploration business. The exploration for, and of, mineral deposits involves significant financial risks over an extended period of time. There is no guarantee that even with careful geological evaluation, experience and knowledge that the Company will be successful in its search or that expenditure of funds will result in the discovery of an economic mineral deposit.

Risk associated with mineral tenure rights

Although the Company has taken steps to verify title to its mineral property interests in accordance with industry standards, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Uninsured Risks

The Company maintains insurance to protect it against certain risks related to its current operations in amounts that it believes are reasonable depending upon the circumstances surrounding each identified risk. The Company may elect, however, not to insure against certain risks due to high premiums or

for various other reasons. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions, fire, flooding and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise there could result increasing costs and a decline in the value of the Company's securities.

Competition

The Company competes with other mining companies that have substantially greater financial and technical resources for the acquisition of mineral concessions as well as for the recruitment and retention of qualified employees, contractors and other advisors with technical skills and experience in the mining industry. There can be no assurance that the Company will continue to attract and retain skilled employees, contractors, and technical advisors.

Management

The Company currently has a small executive management group, which is sufficient for its present stage of development. The Company has relied, and will continue to rely, upon a large number of consultants and others for operating expertise. Although the Company's development to date has largely depended and in the future will continue to depend upon the efforts of current executive management, the loss of a member of this group could have a material adverse effect on the Company.

Requirement for Further Financing

The Company is dependent upon equity financing to continue to fund its exploration activities and general operations. The Company believes that the current funds on hand should be sufficient to finance its operations and capital needs until the end of calendar year 2006. However, the Company's funding needs may vary depending upon results obtained from current exploration activities. The Company's ability to raise future capital will be in part affected by capital markets and market prices for gold. There is no assurance that such additional financing will be available.

Outstanding share data as at March 31, 2006

The Company has unlimited share capital of common shares of no par value. Of this, the Company has 76,135,255 shares outstanding or 82,150,255 shares on a fully diluted basis. See Items Subsequent to Year-End below.

The Company had 1,840,000 stock options expire during the period and granted an additional 2,700,000. There are 6,015,000 stock options currently outstanding under the Company's incentive stock option plan(s) with exercise prices ranging from \$0.33 - \$0.80 with expiry dates ranging to February 16, 2011.

The Company had 3,250,000 warrants expire during the period ended March 31, 2006 and has no existing warrants outstanding.

If the Company were to issue all 6,015,000 issuable upon exercise of all incentive stock options outstanding, it would raise approximately \$2,720,000.

Items Subsequent to Year-End**Private Placement**

Upon receipt of regulatory and shareholder approval the Company was granted the right to sell and/or subsequently issue up to an additional 76,000,000 of its common shares to purchase the half interest in the Sleeper Gold Property Joint Venture from New Sleeper Gold Corporation (issuance of 10,000,000 common shares) and to fund ongoing mineral exploration on the Company's properties. The Company subsequently issued the following shares:

| Date | Type | No. of shares | Deemed or Issue Price per share | Gross Proceeds to Company |
|--------------|----------------------|----------------------|--|----------------------------------|
| May 16, 2006 | Property Acquisition | 10,000,000 | \$0.32 | \$3,200,000 ⁽¹⁾ |
| May 16, 2006 | Private Placement | 23,517,001 | \$0.28 | \$6,584,760 |
| May 18, 2006 | Private Placement | 10,482,999 | \$0.28 | \$2,935,240 |

(1) Deemed value for acquisition purposes only. Proceeds not received by Company.

The Company, as at June 29, 2006 has 120,135,255 common shares outstanding.

Sleeper Gold Property

The Company reached an agreement and received all regulatory approvals to consolidate the property into a single entity and purchased the joint venture interest held by New Sleeper Gold Corporation. The purchase closed on May 16, 2006 whereby the Company paid \$5,000,000 CDN and delivered 10 million common shares at a deemed value of \$0.32 per share (\$3,200,000), with resale restrictions attached.

The following is a proforma Balance Sheet prepared by the Company to reflect the effect of the acquisition of the New Sleeper Gold Corporation's interest in the joint venture.

Assets

| | |
|---------------------------|----------------------|
| Cash and cash equivalents | \$ 5,291,106 |
| Receivables and prepaids | 533,455 |
| Mineral interests | 28,650,314 |
| Equipment | 71,515 |
| Total Assets | <u>\$ 34,546,390</u> |

Liabilities

| | |
|--------------------------|---------------------|
| Payables and accruals | \$ 235,535 |
| Environmental Obligation | 937,898 |
| Total Liabilities | <u>\$ 1,173,433</u> |

Shareholders' Equity

| | |
|---|----------------------|
| Capital Stock | \$ 46,529,188 |
| Share Insurance Cost | (373,685) |
| Contributed Surplus | 1,965,059 |
| Deficit | (14,747,605) |
| | <u>33,372,957</u> |
| Total Liability and Shareholder Equity | <u>\$ 34,546,390</u> |

In the opinion of management, there are no material items since the end of the fiscal year that require further discussion in the MD&A than otherwise disclosed herein.



The acquisition of 100% of the Sleeper Gold Project by X-Cal was a milestone event that occurred subsequent to year end.

X-Cal Resources Ltd.

**Audited Consolidated
Financial Statements**

For the year ended March 31, 2006

AUDITORS' REPORT

TO THE SHAREHOLDERS OF X-CAL RESOURCES LTD.

We have audited the consolidated balance sheet of X-Cal Resources Ltd. as at March 31, 2006 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comparative figures for the prior year were audited by another firm of Chartered Accountants who expressed an unqualified opinion in their report dated May 27, 2005.

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, Canada

June 14, 2006

**X-Cal Resources Ltd.
Consolidated Balance Sheets**

| | March 31, 2006 | March 31, 2005 |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and term deposits | | |
| X-Cal Resources Ltd. | \$ 1,265,748 | \$ 2,846,436 |
| New Sleeper LLC joint venture (Note 4) | 23,522 | 1,463,968 |
| Prepaid expenses and deposits | 334,762 | 358,496 |
| | <u>1,624,032</u> | <u>4,668,900</u> |
| Mineral property interests (Note 4) | 20,158,750 | 18,272,141 |
| Property and equipment (Note 5) | 71,515 | 92,016 |
| | <u>\$ 21,854,297</u> | <u>\$ 23,033,057</u> |
| Liabilities | | |
| Current | | |
| Payables and accruals | \$ 190,707 | \$ 407,389 |
| Reclamation and environmental obligations (Note 6) | 468,949 | 557,990 |
| | <u>659,656</u> | <u>965,379</u> |
| Shareholders' Equity | | |
| Capital stock (Note 7) | 33,809,188 | 33,809,188 |
| Subscription received in advance | 168,000 | - |
| Contributed surplus (Note 7) | 1,965,060 | 1,475,025 |
| Deficit | (14,747,607) | (13,216,535) |
| | <u>21,194,641</u> | <u>22,067,678</u> |
| | <u>\$ 21,854,297</u> | <u>\$ 23,033,057</u> |
| Commitments (Note 11) | | |
| Subsequent Events (Note 12) | | |

(See accompanying notes to the consolidated financial statements)

On behalf of the board:

"Shawn Kennedy"

Shawn Kennedy, Director

"John Arnold"

John Arnold, Director

X-CAL RESOURCES LTD.**X-Cal Resources Ltd.
Consolidated Statements of Operations and Deficit**

| Years Ended | March 31, 2006 | March 31, 2005 |
|--|-------------------------------|-------------------------------|
| General and administrative expenses | | |
| Accounting and audit | \$ 79,608 | \$ 98,195 |
| Amortization | 29,565 | 31,658 |
| Insurance | 230,285 | 232,512 |
| Investor relations | 37,272 | 89,793 |
| Shareholder communications | 78,133 | 81,433 |
| Legal | 44,528 | 43,021 |
| Office and other | 47,070 | 39,104 |
| Regulatory fees | 41,663 | 44,861 |
| Rent | 49,699 | 42,229 |
| Salaries and directors' fees and consulting | 344,041 | 403,392 |
| Stock-based compensation (Note 7) | 385,335 | 301,838 |
| Telecommunications | 21,742 | 39,728 |
| Travel | 80,027 | 129,291 |
| | <u>1,468,968</u> | <u>1,577,055</u> |
| Loss before other items | (1,468,968) | (1,577,055) |
| Other income (expenses) | | |
| Foreign exchange | (119,192) | (332,451) |
| Interest and other income | 107,139 | 178,726 |
| Accretion expense - reclamation and environmental obligations (Note 6) | (62,051) | (69,762) |
| Sale of mineral property interest | 12,000 | 12,000 |
| | <u>(152,104)</u> | <u>(211,487)</u> |
| Net loss | (1,531,072) | (1,788,542) |
| Deficit, beginning of year | <u>(13,216,535)</u> | <u>(11,427,993)</u> |
| Deficit, end of year | \$ <u><u>(14,747,607)</u></u> | \$ <u><u>(13,216,535)</u></u> |
| Loss per share | \$ <u><u>(0.02)</u></u> | \$ <u><u>(0.02)</u></u> |
| Weighted average number of common shares outstanding | <u>76,135,255</u> | <u>75,991,693</u> |

(See accompanying notes to the consolidated financial statements)

**X-Cal Resources Ltd.
Consolidated Statements of Cash Flows**

| Years Ended | March 31, 2006 | March 31, 2005 |
|---|---------------------|---------------------|
| Cash derived from (applied to) | | |
| Operating | | |
| Net loss | \$ (1,531,072) | \$ (1,788,542) |
| Non-cash items: | | |
| Stock-based compensation | 385,335 | 301,838 |
| Amortization | 29,565 | 31,658 |
| Accretion expense – reclamation obligations | 62,051 | 69,762 |
| Changes in non-cash working capital balance: | | |
| Prepaid expenses and deposits, payables and accruals | 36,760 | 59,608 |
| | <u>(1,017,361)</u> | <u>(1,325,676)</u> |
| Financing | | |
| Shares issued for cash | - | 338,250 |
| Subscriptions received in advance | 168,000 | - |
| Cash Provided by Financing Activities | <u>168,000</u> | <u>338,250</u> |
| Investing | | |
| In-trust deposits | - | 1,697,293 |
| Mineral property interests | (1,396,083) | (6,445,906) |
| Joint venture cash contribution | (828,201) | - |
| Cost recoveries | 61,575 | - |
| Purchase of property and equipment | (9,064) | (19,446) |
| Cash Used in Investing Activities | <u>(2,171,773)</u> | <u>(4,768,059)</u> |
| Net decrease in cash | (3,021,134) | (5,755,485) |
| Cash and term deposits | | |
| Beginning of year | 4,310,404 | 10,065,889 |
| End of year | \$ <u>1,289,270</u> | \$ <u>4,310,404</u> |
| Components of cash and term deposits: | | |
| X-Cal Resources Ltd. | \$ 1,265,748 | \$ 2,846,436 |
| New Sleeper Gold LLC joint venture | 23,522 | 1,463,968 |
| | <u>\$ 1,289,270</u> | <u>\$ 4,310,404</u> |
| Non-cash investing and financing activities: | | |
| Stock-based compensation capitalized in mineral property interests | \$ 104,700 | \$ 37,288 |
| Reclamation and environmental obligation capitalized in mineral property interest | \$ 468,949 | \$ 557,990 |
| Accounts payable related to mineral property interests | \$ 62,525 | \$ 274,421 |
| Accounts receivable related to mineral property interests | \$ 50,889 | \$ 33,077 |
| Depreciation capitalized in mineral property interests | \$ - | \$ 2,560 |

(See accompanying notes to consolidated financial statements)

X-Cal Resources Ltd.

Notes to the Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

1. Nature of Operations and Basis of Presentation

X-Cal Resources Ltd. (the "Company") is engaged in the exploration of its mineral property interests and has not determined whether its properties contain reserves that are economically recoverable. The business of exploring for resources involves a high degree of risk. Few properties that are explored ultimately are developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. There is no assurance that the Company will be successful in its search.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going-concern basis. This presumes funds will be available to finance on-going development, operations and capital expenditures, and the realization of assets and the payment of liabilities in the normal course of operations for the foreseeable future.

The recovery of the amount recorded for mineral property interests is dependent upon the ability of the Company to locate economically recoverable reserves, obtain the financing necessary to complete exploration and development of the properties, future mineral prices, and upon future profitable production.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and X-Cal U.S.A. Inc., its wholly-owned subsidiary. The Company's interest in the joint venture (New Sleeper Gold LLC joint venture), through which it carries on its principal mineral exploration activities, is accounted for using the proportionate consolidation method.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Interest income is accrued as earned on the term deposits at the stated rate over the term to maturity. The Company recognized income on the sale of mineral property in accordance to the sales agreement.

Translation of foreign currencies

Unless otherwise noted, all amounts presented in these financial statements are expressed in Canadian dollars.

Foreign currency transactions are translated by the temporal method whereby monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; non-monetary assets are translated at rates prevailing when acquired; and revenue and expenses are translated at average rates of exchange for the year. Translation gains and losses are included in the results of operations for the year.

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

2. Summary of Significant Accounting Policies (cont'd)

Cash and term deposits

The Company considers cash to include cash and short-term investments readily convertible into cash.

Mineral property interests

Mineral interests represent acquisition, holding and exploration costs, less amounts recovered, written off or written down to date. If production is attained, these costs will be amortized using the unit-of-production method based on estimated reserves. Costs related to properties that are abandoned or considered uneconomic in the foreseeable future are written off.

When properties are acquired under agreements requiring future acquisition payments to be made at the sole discretion of the Company, those future payments, whether in cash or shares, are recorded only when the Company has made or becomes obliged to make the payment or to issue the shares.

When properties are acquired under agreements requiring future purchase payments to be made at the sole discretion of the purchaser, those future payments, whether in cash or shares, are recorded only when the purchaser has made or becomes obliged to make the payment or to issue the shares.

Reclamation and environmental costs

The Company is subject to the laws and regulations relating to environmental matters in jurisdictions in which it operates, including those relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its existing properties and properties in which it previously had an interest.

The Company has adopted the new standards for accounting for reclamation and environmental obligations as set out in Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110. Those standards require that the fair value of the Company's reclamation and environmental obligations be recognized in the financial statements as a liability in the period in which the obligation is assumed on acquisition or is incurred in exploration of properties. The fair value of the liability is initially recorded at the discounted value of expected future cash outlays to satisfy the obligations, with a corresponding increase to mineral property interests. The liability is adjusted at the end of each period to reflect changes in the present value of the estimated future cash outlays underlying the obligation. The Company records that increase in the carrying amount of the obligation as accretion expense.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization calculated over their estimated useful lives. All property and equipment is amortized on the straight-line method over 5 years.

Capital stock issued for other than cash

Capital stock issued for other than cash is valued at the price at which the stock traded on the principal stock exchange on which the stock trades at the time the related agreement to issue stock is made or, if such issuance is at the option of the Company, at the time the Company determines to issue such stock.

X-Cal Resources Ltd.

Notes to the Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

2. Summary of Significant Accounting Policies (cont'd)

Stock-based compensation

The Company follows the recommendations of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards be measured and recognized using a fair value based method.

Future income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method future income tax assets and liabilities are computed on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using enacted income tax rates at each balance sheet date. Future income tax assets also include the benefit that may be derived from loss carry-forwards and unclaimed other deductions. The valuation of future income tax assets is reviewed annually and adjusted by a valuation allowance to reflect the estimated realizable amount.

Loss per share

Loss per share is determined by dividing net loss by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options. This method assumes that proceeds received from the exercise of in the money stock options and warrants are used to repurchase common shares at the average market price during the period. No exercise or conversion is assumed during the years in which a net loss is incurred as the effect is anti-dilutive.

Financial Instruments

(a) Fair value

The carrying values of cash and term deposits, deposits, accounts payable and accrued liabilities, reclamation and environmental obligations approximate their fair values because of the short-term maturity of these financial instruments.

(b) Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary assets and liabilities.

(c) Foreign currency risk

The Company incurs expenditures in both Canadian and US dollars and obtains financing in Canadian dollars. Therefore, the Company is exposed to foreign currency risk. The Company does not use derivative instruments to mitigate that risk.

3. Comparative Figures

Certain 2005 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2006.

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

4. Mineral Property Interests

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|----------------------|----------------------|
| Sleeper Gold Project – Nevada, USA | \$ 17,717,872 | \$ 16,054,740 |
| Mill Claims – Nevada, USA | 2,403,651 | 2,217,401 |
| Reese River | 37,227 | - |
| | <u>\$ 20,158,750</u> | <u>\$ 18,272,141</u> |

Sleeper Gold Project

From December 1993 to December 2003, the Company acquired rights to explore and develop the Sleeper Gold Project properties. Also, the Company had an option to purchase the 50% interest of a joint venturer.

In January 2004, the Company purchased the interest of the former joint venturer, Kinross Gold Corporation, and formed a new joint venture with New Sleeper Gold Corporation to finance exploration of the property. Certain terms of the new joint venture are set out below:

- New Sleeper Gold Corporation contributed US \$20,000,000 in cash to the joint venture.
- The Company contributed its interest in the Sleeper Gold Project to the joint venture.
- The US \$20,000,000 cash contribution by New Sleeper Gold Corporation was applied to:
 - i) US \$4,000,000 to exercise the option to purchase the Kinross Gold interest in the properties;
 - ii) US \$8,000,000 to fund a reclamation and pollution legal liability insurance policy and a reclamation reserve of which US \$5,300,000 was expended by March 31, 2004; the remaining US \$2,700,000 was released subsequently and made available for exploration and general operating purposes; and
 - iii) the balance of US \$8,000,000 for exploration and general operating purposes.
- The Company and New Sleeper Gold Corporation agreed to make additional equal capital contributions should additional funds be required. During 2006, the Company contributed CDN \$548,009 (2005 - \$Nil). Should either party not meet its capital contributions commitment, the interest of that party will be subject to dilution.

(a) These consolidated financial statements include the Company's 50% interest, expressed in Canadian dollars, of the net assets and net expenses of New Sleeper Gold LLC joint venture as at and for the period from inception to March 31, 2006:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|---------------------|
| Assets | \$ 9,568,657 | \$ 10,394,786 |
| Liabilities | 513,782 | 841,263 |
| Net Assets | <u>\$ 9,054,875</u> | <u>\$ 9,553,523</u> |
| Net earnings (loss) | <u>\$ (498,648)</u> | <u>\$ (861,987)</u> |
| Retained earnings (deficit), beginning of year | <u>\$ (705,677)</u> | <u>\$ 156,310</u> |
| Deficit, end of year | <u>\$ (1,204,325)</u> | <u>\$ (705,677)</u> |

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

4. Mineral Property Interests (cont'd)

Sleeper Gold Project (cont'd)

- (b) See attached Consolidated Schedules of Mineral Property Acquisition and Exploration Costs.
- (c) The funds held by the insurer earn interest at the one-year treasury bill rate and are available to pay reclamation costs and other indemnity claims that may be incurred by the joint venture.
- (d) The joint venture has recognized the fair value of the estimated liability for future closure and reclamation costs with a corresponding increase to the carrying value of the property.
- (e) Certain claims of the Sleeper Gold Project are subject to royalty obligations to Leland York under a lease agreement. New Sleeper Gold LLC joint venture is obliged to make advance royalty payments of \$3,000,000 payable at \$50,000 per year (cumulative required amount of \$736,500 has been paid to date; \$686,500 to 2005). Any commercial production from those claims is subject to a 3% net smelter return that may be offset in full to the extent of royalties paid in advance. When \$3,000,000 has been paid, the royalty will be reduced to 0.5%. New Sleeper Gold LLC has the right of first refusal to purchase the remaining 0.5% royalty at a price to be negotiated should the holder offer it for sale.

Mill Claims

The Mill claims were acquired by staking in 1992. The Company owns a 100% interest in this 720-acre group of 36 lode mineral claims.

On June 28, 2005, the Company entered into an option agreement with Placer Dome U.S., Inc. ("Placer"), which allowed Placer the right to purchase the company's Mill Creek Gold property, located in the Cortez Area, Lander County, Nevada for US \$5,000,000. A non-refundable signing fee of US \$50,000 paid to the Company initiated the agreement.

Placer had until January 16, 2006 to determine if they will pay US \$5,000,000 for the Mill Creek Gold property. The agreement was terminated January 19, 2006.

5. Property and Equipment

| March 31, 2006 | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
|------------------------|-------------------|-------------------------------------|---------------------------|
| Vehicles | \$ 147,416 | \$ 101,493 | \$ 45,923 |
| Office equipment | 96,841 | 72,826 | 24,015 |
| Leasehold improvements | <u>18,651</u> | <u>17,074</u> | <u>1,577</u> |
| | <u>\$ 262,908</u> | <u>\$ 191,393</u> | <u>\$ 71,515</u> |
| | | | |
| March 31, 2005 | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
| Vehicles | \$ 145,182 | \$ 79,875 | \$ 65,308 |
| Office equipment | 90,012 | 65,725 | 24,286 |
| Leasehold improvements | <u>18,650</u> | <u>16,228</u> | <u>2,422</u> |
| | <u>\$ 253,844</u> | <u>\$ 161,828</u> | <u>\$ 92,016</u> |

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

6. Reclamation and Environmental Obligations

Subject to the laws and regulations relating to environmental matters, the Company may be held liable for future site restoration costs.

The following table presents the reconciliation of the liability for the asset retirement obligation.

| | | |
|---|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> |
| Balance, beginning of year, as previously reported | \$ 557,990 | \$ 2,016,165 |
| Prior year adjustment to reflect accounting change (Note 2) | - | (1,358,777) |
| Balance, beginning of year, as restated | <u>557,990</u> | <u>657,388</u> |
| Accretion expense | 62,051 | 69,762 |
| Changes in credit-adjusted risk-free rate | (43,522) | 3,096 |
| Payments made | (107,570) | (172,256) |
| Balance, end of year | <u>\$ 468,949</u> | <u>\$ 557,990</u> |

As at March 31, 2006 and 2005, the following information was assumed in measuring the reclamation and environmental obligation:

| | | |
|--|--------------|--------------|
| | <u>2006</u> | <u>2005</u> |
| Undiscounted obligation | \$ 1,736,339 | \$ 1,843,909 |
| Expected timing of payments | 2007 – 2052 | 2006 – 2052 |
| Average credit-adjusted risk-free rate | 11.15% | 10.76% |
| Inflation factor | 2.0% | 2.0% |

7. Capital Stock

(a) Authorized:

During 2005, the shareholders authorized an increase in the Company's authorized capital stock from 200,000,000 common shares without par value to unlimited common shares without par value.

(b) Issued:

| | <u>Shares</u> | <u>Amount</u> | <u>Contributed Surplus</u> |
|--|-------------------|----------------------|----------------------------|
| Balance, March 31, 2004 | 75,035,255 | \$ 33,454,001 | \$ 1,152,836 |
| Issued on exercise of warrants | 1,025,000 | 307,500 | - |
| Issued on exercise of stock options | 75,000 | 30,750 | - |
| Stock-based compensation – options exercised | - | 16,937 | (16,937) |
| Stock-based compensation – options granted | - | - | 339,126 |
| Balance, March 31, 2005 | <u>76,135,255</u> | <u>33,809,188</u> | <u>1,475,025</u> |
| Stock-based compensation – options granted | - | - | 490,035 |
| Balance, March 31, 2006 | <u>76,135,255</u> | <u>\$ 33,809,188</u> | <u>\$ 1,965,060</u> |

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

7. Capital Stock (cont'd)

(c) Stock options

The Company has a 10% rolling stock option plan under which directors, officers and other key employees and consultants to the Company and its subsidiaries may be granted options to purchase shares. The number of common shares subject to options granted under the plan is 5% of the issued capital at the date of the grant with respect to any one optionee, not to exceed 10% of the issued and outstanding common shares of the Company in aggregate (2005 - 7,500,000). Options issued under the Plan may be exercised during a period determined by the board of directors, which cannot exceed five years.

Summary of stock option activity:

| | 2006 | | 2005 | |
|--------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding, beginning of year | 5,155,000 | \$ 0.64 | 4,315,000 | \$ 0.68 |
| Granted | 2,700,000 | \$ 0.33 | 1,115,000 | \$ 0.49 |
| Exercised | - | - | (75,000) | \$ 0.41 |
| Expired | (1,840,000) | \$ 0.80 | (200,000) | \$ 0.73 |
| Cancelled | - | - | - | - |
| Outstanding, end of year | 6,015,000 | \$ 0.45 | 5,155,000 | \$ 0.64 |

As at March 31, 2006, the Company had stock options outstanding and exercisable, enabling the holders to acquire shares as follows:

| <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-------------------------|-----------------------|--------------------|
| 1,450,000 | \$ 0.47 | December 6, 2006 |
| 50,000 | \$ 0.50 | January 28, 2007 |
| 750,000 | \$ 0.80 | March 11, 2007 |
| 225,000 | \$ 0.50 | December 13, 2007 |
| 200,000 | \$ 0.45 | April 1, 2008 |
| 640,000 | \$ 0.50 | December 13, 2009 |
| 1,500,000 | \$ 0.33 | February 16, 2009 |
| 1,200,000 | \$ 0.33 | February 16, 2011 |
| 6,015,000 | | |

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

7. Capital Stock (cont'd)

(d) Warrants

Summary of share warrant activity:

| | 2006 | | 2005 | |
|--------------------------------|-------------|---------------------------------------|-------------|---------------------------------------|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, beginning of year | 3,250,000 | \$ 0.72 | 6,744,668 | \$ 0.65 |
| Issued | - | | - | |
| Exercised | - | | (1,025,000) | \$ 0.30 |
| Expired | (3,250,000) | \$ 0.72 | (2,469,668) | \$ 0.70 |
| Outstanding, end of year | Nil | | 3,250,000 | \$ 0.72 |

The warrants were exercisable at a price of \$0.72 and expired December 15, 2005.

(e) Stock-based compensation

The Company uses the Black-Scholes option pricing model to estimate the value of the options at each grant date using the following assumptions for the year ended March 31, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|-------------|-------------|
| Risk-free rate of return | 3.97% | 3.43% |
| Expected dividend yield | - | - |
| Expected stock price volatility | 79.83% | 92.85% |
| Expected option life in years | 3.89 | 4.15 |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the year ended March 31, 2006, the compensation cost of stock options granted was \$490,035, of which \$385,335 was expensed and \$104,700 was capitalized to mineral properties. Stock-based compensation was attributable as to directors - \$254,280, employees - \$15,330, and consultants - \$220,425.

During the year ended March 31, 2005, the compensation cost of stock options granted that was expensed was \$301,838, and \$37,288 was capitalized to mineral properties. Stock-based compensation was attributable as to directors - \$230,170, employees - \$16,608, and consultants - \$92,348.

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

8. Related Party Transactions

The Company paid legal fees of \$46,202 (2005 - \$26,607) to a director of the Company. The Company also paid an aggregate of \$34,690 (2005 - \$33,815) in consulting fees and expenses to two directors of the Company. The Company paid an aggregate of \$30,000 for the year (2005 - \$13,000) in directors' and committee fees.

All of the above transactions and balances 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.

9. Income Taxes

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

| | <u>2006</u> | <u>2005</u> |
|---|--------------------|--------------------|
| Mineral properties | \$ (417,000) | \$ 1,079,000 |
| Share issue costs | 12,000 | 25,000 |
| Excess of accounting basis over tax basis of SR&ED expenditure and property and equipment | 79,000 | 72,000 |
| Non-capital losses carried forward | 1,580,000 | 1,412,000 |
| US net operating losses carried forward | <u>459,000</u> | <u>278,000</u> |
| Total future income tax assets | 1,713,000 | 2,866,000 |
| Valuation allowance | <u>(1,713,000)</u> | <u>(2,866,000)</u> |
| Net book value | \$ <u>-</u> | \$ <u>-</u> |

The Company has non-capital losses of \$4,622,000 available to reduce future taxable income, which under Canadian income tax laws expire as follows:

| | |
|------|--------------------|
| 2007 | \$ 364,000 |
| 2008 | 408,000 |
| 2009 | 433,000 |
| 2010 | 947,000 |
| 2014 | 996,000 |
| 2015 | 815,000 |
| 2016 | <u>659,000</u> |
| | <u>\$4,622,000</u> |

The Company also has reported net operating losses in the US of \$1,123,082 that are available to reduce taxable income in future years. These losses will expire in the period from 2011 to 2025 if not utilized.

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

9. Income Taxes (cont'd)

The income tax recovery shown on the statements of operations differs from that obtained by applying combined Canadian federal and provincial statutory rates of 34.12% (2005 – 35.62%) to the loss before taxes as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Income tax recovery based on the statutory rate | \$ 522,000 | \$ 637,000 |
| Tax effect of expired losses | - | (172,000) |
| Stock-based compensation | (131,000) | (107,000) |
| Share issue costs | 12,000 | 12,000 |
| Differences between amortization and capital cost allowance | (10,000) | (10,000) |
| Non-deductible expense | (100) | (500) |
| Unrecognized tax losses | (392,900) | (359,500) |
| Income tax for the year | \$ <u>-</u> | \$ <u>-</u> |

10. Segmented Information

The Company operates in one industry segment, the mineral resource industry, and in two geographical segments, Canada and the United States of America. All current exploration activities are conducted in Nevada, US. The net loss and assets identifiable with those geographic areas are as follows:

| | <u>2006</u> | <u>2005</u> |
|----------|-----------------------|-----------------------|
| Net loss | | |
| Canada | \$ (1,032,424) | \$ (926,555) |
| USA | (498,648) | (861,987) |
| | \$ <u>(1,531,072)</u> | \$ <u>(1,788,542)</u> |
| Assets | | |
| Canada | \$ 1,337,263 | \$ 2,938,452 |
| USA | 20,517,034 | 20,094,605 |
| | \$ <u>21,854,297</u> | \$ <u>23,033,057</u> |

11. Commitments

(a) Office lease

The Company leases office space in Vancouver until July 31, 2007, under which it must pay \$26,187 annually as its share of base rent and operating costs.

(b) Management agreements

The Company has a five-year Employment Agreement dated September 1, 2004 whereby it will pay an administrative manager \$72,000 per annum. Currently, by mutual agreement between the parties, the employee is receiving \$36,000 per annum as payment in full for services provided. Should the Company terminate the agreement or should the Company have an effective change of control, it will be liable for payment of one year's salary at the full rate of \$72,000.

X-Cal Resources Ltd.
Notes to the Consolidated Financial Statements
Years Ended March 31, 2006 and 2005

11. Commitments (cont'd)

(b) Management agreements (cont'd)

The Company has an employment contract with its President. Under the terms of that contract, remuneration is \$120,000 per annum reviewable on October 1st of each year, when such remuneration may be increased but not decreased. The contract provides that, in the event of termination by the Company, the President shall receive three times the annual amount of salary in the year of termination plus US \$150,000.

12. Subsequent Events

(a) Private placement

Upon receipt of regulatory and shareholder approval, the Company was granted the right to sell and/or subsequently issue up to an additional 76,000,000 of its common shares to purchase the half interest in the Sleeper Gold Property LLC joint venture from New Sleeper Gold Corporation (issuance of 10,000,000 common shares) and to fund ongoing mineral exploration on the Company's properties. The Company subsequently issued the following shares:

| Date | Type | No. of shares | Deemed or Issue Price Per Share | Gross Proceeds to Company |
|--------------|----------------------|---------------|---------------------------------|-----------------------------|
| May 16, 2006 | Property Acquisition | 10,000,000 | \$ 0.32 | \$ 3,200,000 ⁽¹⁾ |
| May 16, 2006 | Private Placement | 23,517,001 | \$ 0.28 | \$ 6,584,760 |
| May 18, 2006 | Private Placement | 10,482,999 | \$ 0.28 | \$ 2,935,240 |

⁽¹⁾ Deemed value for acquisition purposes only. Proceeds not received by Company.

(b) Sleeper Gold Property

The Company reached an agreement and received all regulatory approvals to consolidate the property into a single entity and purchased the joint venture interest held by New Sleeper Gold Corporation. The purchase closed on May 16, 2006 whereby the Company paid \$5,000,000 and delivered 10,000,000 common shares at a deemed value of \$0.32 per share, with two-year resale restrictions attached.

X-Cal Resources Ltd.

Consolidated Schedules of Mineral Acquisition and Exploration Costs
For the years ended March 31, 2006 and 2005

X-CAL RESOURCES LTD.

| | 2006 | | 2005 | | | | | |
|---|----------------------------|-----------------------------------|----------------|---------------|----------------------------|-----------------------------------|----------------|---------------|
| | Sleeper Gold Project | Pipeline Area - Mill Claims | Reese River | Total | Sleeper Gold Project | Pipeline Area - Mill Claims | Reese River | Total |
| Mineral acquisitions and exploration expenditures, beginning of year | \$ 22,647,442 | \$ 2,217,401 | \$ - | \$ 24,864,843 | \$ 17,991,460 | \$ 139,095 | \$ - | \$ 18,130,555 |
| Acquisition and holding costs incurred | - | - | - | - | - | - | - | - |
| Advance royalties | 50,000 | - | - | 50,000 | - | - | - | - |
| Property acquisitions | 50,000 | - | - | 50,000 | - | - | - | - |
| Exploration Expenditures | - | - | - | - | - | - | - | - |
| Claim Staking | 124,919 | 11,966 | 847 | 137,732 | 14,160 | 124,023 | - | 138,183 |
| Consulting | 691,842 | - | - | 691,842 | 1,244,920 | 79,775 | - | 1,324,695 |
| Geology | 351,234 | 7,131 | - | 358,365 | 2,518,744 | 1,446,694 | - | 3,965,438 |
| Drilling & Assaying | 389,243 | 63,051 | 124 | 452,418 | 411,787 | 118,578 | - | 530,365 |
| Field expenses | 8,750 | 5,250 | - | 14,000 | 9,500 | 9,500 | - | 19,000 |
| Insurance | 115,157 | 43,415 | - | 158,572 | 263,374 | 40,823 | - | 304,197 |
| Geophysics & Geochemistry | - | 5,940 | 23,532 | 29,472 | - | 10,914 | - | 10,914 |
| Licenses and fees | (43,522) | - | - | (43,522) | 53,886 | 99,870 | - | 153,756 |
| Reclamation | 68,055 | 26,175 | 10,470 | 104,700 | 22,373 | 14,915 | - | 37,288 |
| Stock-based compensation | 166,682 | 84,897 | 2,254 | 253,833 | 117,238 | 133,214 | - | 250,452 |
| Office, wages, prof fees & travel expenses | \$ 1,872,360 | \$ 247,825 | \$ 37,227 | \$ 2,157,412 | \$ 4,655,982 | \$ 2,078,306 | \$ - | \$ 6,734,288 |
| Mineral property interests written off | - | (61,575) | - | (61,575) | - | - | - | - |
| Mineral exploration expenditures and interests before other costs (recoveries) | \$ 24,569,802 | \$ 2,403,651 | \$ 37,227 | \$ 27,010,680 | \$ 22,647,442 | \$ 2,217,401 | \$ - | \$ 24,864,843 |
| Prepaid reclamation obligation insurance | 1,097,900 | - | - | 1,097,900 | 1,236,930 | - | - | 1,236,930 |
| Funds held by insurer for reclamation obligation | 1,651,981 | - | - | 1,651,981 | 1,772,179 | - | - | 1,772,179 |
| Deferred environmental cost | 657,389 | - | - | 657,389 | 657,389 | - | - | 657,389 |
| Recovery through joint venturer cash contribution | (10,259,200) | - | - | (10,259,200) | (10,259,200) | - | - | (10,259,200) |
| Mineral interests, end of year | \$ 17,717,872 | \$ 2,403,651 | \$ 37,227 | \$ 20,158,750 | \$ 16,054,740 | \$ 2,217,401 | \$ - | \$ 18,272,141 |



Win Rowe MSc (centre) and Robert Thomason MSc (right) inspect X-Cal's minesite maintenance equipment at Sleeper. Randy Kyлло (Left)





X-Cal's Secure Core Storage Facility at Sleeper.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Shawn M. Kennedy, Vancouver, British Columbia

President, CEO and Director

John M. Arnold, Guelph, Ontario
Chief Financial Officer and Director

William E. Bateman, Toronto, Ontario
Corporate Secretary and Director

Derek Bartlett, Mississauga, Ontario
Director

Larry Kornze, Middleton, Idaho
Director

Robert D. Preston, Toronto, Ontario
Director

AUDITORS

Smythe Ratcliffe
Vancouver, BC

LEGAL COUNSEL

DuMoulin Black LLP
Vancouver, British Columbia

Kavanagh Bateman & Baek LLP
Toronto, Ontario

ANNUAL MEETING

The Annual General Meeting of shareholders will be held on Monday, September 18, 2006 at 3:00PM in the Canadian Room of The Ontario Club, Commerce Court South, Toronto.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
Toronto, Ontario

SHARES LISTED

The Toronto Stock Exchange
Trading Symbol: **XCL**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

U.S. 12G3 Exemption #82-1655
Standard & Poor's Directory

REGISTERED OFFICE

10th Floor, 595 Howe Street,
Vancouver, British Columbia V6C 2T5

MAILING ADDRESS

X-Cal Resources Ltd.
PO Box 48479 Bentall Centre
Vancouver, BC V7X 1A0
Tel: (604) 662-8245
Fax: (604) 688-7740

COURIER ADDRESS

X-Cal Resources Ltd.
750 – 666 Burrard Street
Vancouver, British Columbia V6C 2X8

WEBSITE

www.x-cal.com