

## **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](http://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](http://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 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](http://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 Mr. Robert E. Thomason, M.Sc., L.Ge. 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 Hedenquists' report was not filed on SEDAR but can be found in its entirety at the Company's website [www.x-cal.com](http://www.x-cal.com).

The Company, relying on the aforementioned reports and other information, determined it was in 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](http://www.sedar.com) and the Company's website [www.x-cal.com](http://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 3(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 – \$178,126) 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.

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
<b>TOTAL</b>	<b>\$1,086,167</b>	<b>\$382,801</b>	<b>\$1,468,968</b>	<b>\$1,066,008</b>	<b>\$511,047</b>	<b>\$1,577,055</b>

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.

<b>2006</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
Interest Income	\$33,326	\$23,632	\$35,143	\$15,038	\$107,139
Net Loss	\$234,993	\$379,324 <sup>(1)</sup>	\$278,389 <sup>(1)</sup>	\$638,366	1,531,072
Loss per share*	\$0.003	\$0.005	\$0.004	\$0.008	\$0.02

<b>2005</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
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

<b>2004</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
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

<sup>(1)</sup> 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 \$964,376 (2005 – \$3,703,521). 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 1<sup>st</sup> 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 available on SEDAR [www.sedar.com](http://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, prepaid expenses and deposits, funds held in trust, and payables and accruals. The carrying value of all financial instruments approximates their fair values.

## **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 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 <sup>(1)</sup>
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

<sup>(1)</sup> 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
<b>Total Assets</b>	\$	<u>34,546,390</u>

#### Liabilities

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

**Shareholders' Equity**

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

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.