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**X-Cal Resources Ltd.**

**INTERIM FINANCIAL STATEMENTS  
(Unaudited)**

For the period ended September 30, 2008

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**X-CAL RESOURCES LTD.**

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*CORPORATE INFORMATION*

***DIRECTORS***

John M. Arnold  
William E. Bateman  
Shawn M. Kennedy  
Derek Bartlett  
Robert Preston  
Larry Kornze

***AUDITORS***

Smythe Ratcliffe LLP, Vancouver, British Columbia

***SHARES LISTED***

The Toronto Stock Exchange

***TRANSFER AGENT***

Computershare Investor Services Inc., Toronto, Canada

**CORPORATE ADDRESS**

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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The consolidated financial statements of X-Cal Resources Ltd. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised entirely of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

These consolidated financial statements have not been audited by Smythe Ratcliffe LLP, Chartered Accountants.

*"Shawn Kennedy"*

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Shawn Kennedy  
President

Vancouver, British Columbia  
November 1, 2008

## X-Cal Resources Ltd. Consolidated Balance Sheets

	September 30, 2008 (unaudited)	March 31, 2008 (audited)
		Restated (Note 13)
<b>Assets</b>		
Current		
Cash and term deposits	\$ 197,533	\$ 145,936
Receivables and prepayments	133,184	267,995
Marketable securities	4,500	2,750
	335,217	416,681
Prepaid insurance (Note 4)	1,574,458	1,699,278
Reclamation bond – commutation account (Note 4)	3,210,477	3,235,288
Environmental bonds	10,970	36,598
Mineral property interests (Note 5)	29,504,199	28,983,674
Property and equipment (Note 6)	54,445	66,594
	34,354,549	34,021,432
	\$ 34,689,766	\$ 34,438,113
<b>Liabilities</b>		
Current		
Accounts payables and accrued liabilities	\$ 341,844	\$ 391,424
Reclamation and environmental obligations (Note 7)	792,604	744,222
	1,134,448	1,135,646
<b>Shareholders' Equity</b>		
Capital stock (Note 8)	48,919,247	48,109,247
Subscriptions received in advance	6,000	165,000
Contributed surplus	3,602,955	3,462,701
Deficit	(18,972,884)	(18,434,481)
	33,555,318	33,302,467
	\$ 34,689,766	\$ 34,438,113
Commitments (Note 12)		
Subsequent Events (Note 14)		

(See accompanying notes to the consolidated financial statements)

On behalf of board:

*“Shawn Kennedy”*

\_\_\_\_\_  
Shawn Kennedy, Director

*“John Arnold”*

\_\_\_\_\_  
John Arnold, Director

**X-Cal Resources Ltd.**  
**Consolidated Statements of Operations and Deficit**  
**(unaudited)**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
		Restated (Note 13)		Restated (Note 13)
<b>General and administrative expenses</b>				
Accounting and audit	\$ 49,524	\$ 4,700	64,024	17,200
Amortization	5,396	6,199	10,792	12,100
Equipment commissioning and testing	-	-	-	50,000
Insurance	92,242	70,998	163,059	145,607
Investor relations	-	16,984	-	45,849
Legal	22,915	360	36,608	20,194
Office and other	3,823	9,567	12,789	19,159
Regulatory fees	8,126	7,465	28,451	21,736
Rent	-	9,582	11,574	16,129
Salaries, consultants' and directors' fees	68,991	27,208	103,017	71,527
Shareholder communications	13,968	47,823	16,808	62,690
Stock-based compensation (Note 8d)	80,125	-	87,581	142,014
Telecommunications	653	-	1,949	1,705
Travel	(783)	7,230	9,074	59,265
	<u>344,978</u>	<u>208,116</u>	<u>545,726</u>	<u>685,175</u>
<b>Loss before other items</b>	<u>(344,978)</u>	<u>(208,116)</u>	<u>(545,726)</u>	<u>(685,175)</u>
<b>Other</b>				
Accretion expense	(24,191)	(27,351)	(48,382)	(54,702)
Foreign exchange gain (loss)	(5,817)	(47,903)	(5,953)	(43,330)
Gain on sale of property and equipment	236	-	5,379	-
Interest and other income	24,500	39,012	56,279	82,468
Sale of mineral property interest	-	-	-	-
Gain on sale of net smelter royalty	-	-	-	-
	<u>(5,272)</u>	<u>(36,242)</u>	<u>7,323</u>	<u>(15,564)</u>
<b>Net income (loss)</b>	<u>(350,250)</u>	<u>(244,358)</u>	<u>(538,403)</u>	<u>(700,739)</u>
<b>Deficit, beginning of period</b>	<u>(18,622,634)</u>	<u>(17,341,307)</u>	<u>(18,434,481)</u>	<u>(16,884,926)</u>
<b>Deficit, end of period</b>	<u>\$ (18,972,884)</u>	<u>\$ (17,585,665)</u>	<u>\$ (18,972,884)</u>	<u>\$ (17,585,665)</u>
Income (loss) per share	<u>\$ (0.003)</u>	<u>\$ (0.002)</u>	<u>\$ (0.004)</u>	<u>\$ (0.006)</u>
Weighted average number of common shares outstanding	<u>136,926,323</u>	<u>125,163,826</u>	<u>133,807,230</u>	<u>124,660,843</u>

(See accompanying notes to the consolidated financial statements)

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

	Three Months Ended September 30,		Six Months Ended, September 30,	
	2008	2007	2008	2007
Restated (Note 13)				
Cash derived from (applied to)				
<b>Operating</b>				
Net income (loss)	\$ (350,250)	\$ (244,358)	\$ (538,403)	\$ (700,739)
Stock-based compensation	80,125	-	87,581	142,014
Amortization	5,396	6,199	10,792	12,100
Accretion expense	24,191	27,351	48,382	54,702
Changes in non-cash working capital items:				
Receivables and prepayments, accounts payables and accrued liabilities	121,776	(306,984)	83,482	(524,116)
	<u>(118,764)</u>	<u>(517,792)</u>	<u>(308,166)</u>	<u>(1,016,039)</u>
<b>Financing</b>				
Shares issued for cash, net of issuance costs	-	-	645,000	150,000
Subscriptions received in advance	6,000	-	6,000	-
	<u>6,000</u>	<u>-</u>	<u>651,000</u>	<u>150,000</u>
<b>Investing</b>				
Sale of net smelter royalty	-	-	-	1,591,740
Mineral property acquisitions	-	(157,725)	-	(157,725)
Mineral property expenditures	5,162	(655,769)	(328,309)	(2,189,216)
Purchase of property and equipment	-	(5,952)	37,072	344,048
	<u>5,162</u>	<u>(819,446)</u>	<u>(291,237)</u>	<u>(411,153)</u>
Net increase (decrease) in cash	(107,602)	(1,337,238)	51,597	(1,277,192)
Cash and term deposits				
Beginning of period	305,135	1,927,696	145,936	1,867,650
End of period	<u>\$ 197,533</u>	<u>\$ 590,458</u>	<u>\$ 197,533</u>	<u>\$ 590,458</u>
<b>Non-cash investing and financing activities</b>				
Stock-based compensation capitalized in mineral property interests	\$ -	\$ -	\$ 52,673	\$ -
Property acquisition	\$ -	\$ -	\$ -	\$ 13,500

(See accompanying notes to consolidated financial statements)

## X-Cal Resources Ltd. Consolidated Statements of Shareholders' Equity

	Number of Shares	Capital Stock	Subscriptions Received in Advance	Contributed Surplus	Accumulated Deficit	Total
<b>Balance: March 31, 2007</b>	123,685,255	47,234,247	-	3,169,750	(16,884,926)	33,519,071
Issuance of shares for cash – private placement	3,028,568	540,000	165,000	-	-	705,000
Share issuance costs	-	(28,500)	-	-	-	(28,500)
Equipment acquisition	1,000,000	350,000	-	-	-	350,000
Property acquisition	50,000	13,500	-	-	-	13,500
Stock-based compensation	-	-	-	292,951	-	292,951
Net loss for the year	-	-	-	-	(1,549,555)	(1,549,555)
<b>Balance: March 31, 2008</b>	127,763,823	\$ 48,109,247	\$ 165,000	\$ 3,462,701	\$ (18,434,481)	\$ 33,302,467
Issuance of shares for cash – private placement	9,162,500	810,000	(159,000)	-	-	651,000
Share issuance costs	-	-	-	-	-	-
Equipment acquisition	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
Stock-based compensation	-	-	-	140,254	-	140,254
Net income (loss) for the period	-	-	-	-	(538,403)	(493,403)
<b>Balance: September 30, 2008</b>	136,926,323	\$ 48,919,247	\$ 6,000	\$ 3,602,955	\$ (18,972,884)	\$ 33,600,318

(See accompanying notes to consolidated financial statements)

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

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**1. Description of Business and Nature of Operations**

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, develop metallurgical processes, and 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 (Canadian GAAP) 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. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going-concern.

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 consolidated financial statements have been prepared by management in accordance with Canadian GAAP using the following significant accounting policies and are expressed in Canadian dollars.

**a) Basis of presentation and principles of consolidation**

The consolidated financial statements include the accounts of the Company and X-Cal U.S.A. Inc., its wholly-owned integrated subsidiary, and its 100% interest in New Sleeper Gold LLC and Sleeper Mining Company, LLC. Certain of the comparative figures are reclassified to conform to the current year's presentation.

**b) Use of estimates and measurement uncertainty**

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include rates for amortization, accretion expense on reclamation and environmental obligations, impairment of mineral property interests, balances of accounts payable and accrued liabilities, reclamation and environmental obligation, valuation allowance for future tax assets, and the calculation of stock-based compensation expense. While management believes the estimates are reasonable, actual results could differ from those estimates.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

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

**c) Revenue recognition**

Interest income is accrued as earned on the term deposits at the stated rate over the term to maturity. The Company recognizes income on the sale of assets in accordance with sales agreements.

**d) Translation of foreign currencies**

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 revenues and expenses are translated at the exchange rate in effect on the dates they occur. Translation gains and losses are included in the results of operations for the year.

**e) Cash and cash equivalents**

In accordance with generally accepted accounting principles, the Company classifies highly liquid short-term investments that are readily convertible into known amounts of cash and have maturities of 90 days or less from the date of acquisition as cash equivalents.

**f) Mineral property interests**

Mineral property 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 by the Company 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 sold by the Company 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.

All deferred mineral property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, mineral expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

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

**g) 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 recognizes the fair value of its reclamation and environmental obligations in the financial statements as a liability in the year 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 year 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.

**h) Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. All property and equipment is amortized on the straight-line method over five years.

**i) 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.

**j) Stock-based compensation**

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

**k) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the year in which the change is enacted or substantially assumed. The amount of future income tax asset is limited to the amount of the benefit that is more likely than not to be realized.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

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

**l) Income (loss) per share**

Income (loss) per share is determined by dividing net income (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 stock options and warrants are used to repurchase common shares at the average market price during the year. No exercise or conversion is assumed during the years in which a net loss is incurred as the effect is anti-dilutive.

**m) Change in Accounting Policies**

Effective April 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. The adoption of these new accounting policies had no impact on the Company's opening equity.

**i) Comprehensive Income**

Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period.

**ii) Financial Instruments – Recognition and Measurement**

This standard sets out the criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial statements within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

Financial assets and liabilities are recognized when the Company becomes party to the contract creating the item. Any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. There were no changes to the fair values of assets and liabilities prior to April 1, 2007 recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are to be classified into one of the following five categories; held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- i. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net income or loss.
- ii. Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- iii. Held-for-trading financial instruments are measured at fair value. All gains and losses are included in net income or loss in the year they arise.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

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

**m) Change in Accounting Policies (cont'd)**

Marketable securities are designated by the Company as financial instruments held for trading and are carried at market value. Purchases and sales of the marketable securities are accounted for at the settlement date.

Effective April 1, 2008 the Company adopted the following new accounting standards issued by the CICA.

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1535, "Capital Disclosures"
- Section 1400, "Going Concern"

CICA Handbook Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance, and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks.

Section 3863 carries forward the presentation requirements of Section 3861.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and procedures for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

CICA Handbook Section 1400 requires management to make an assessment of a company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern.

These new accounting pronouncements currently have no impact on the consolidated financial statements of the Company.

**Future Accounting Changes**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
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(unaudited)

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**3. Financial instruments**

**a) Fair value**

The Company's financial instruments include cash and term deposits, receivables, reclamation bond – commutation account, environmental bonds, and accounts payable and accrued liabilities. Cash and term deposits are designated as held-for-trading; receivables are designated as loans and receivables; reclamation bond – commutation account and environmental bonds are classified as held-to-maturity; and accounts payable and accrued liabilities are classified as other financial liabilities.

Prior to the adoption of Section 3855, the carrying values of cash and term deposits, receivables, and accounts payables and accrued liabilities approximated their fair values because of the short-term maturity of these financial instruments. The reclamation bond approximated its fair value as it earned interest at market rates.

**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) Credit risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash and term deposits and receivables. The Company's cash and term deposits are held at major Canadian and US financial institutions. The Company maintains provisions for potential credit losses for its receivables, and any losses to date have been within management's expectations.

**d) 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.

**4. Prepaid Insurance and Reclamation Bond – Commutation Account**

In 2004, New Sleeper Gold LLC entered into an insurance-backed financial assurance program including a mine reclamation policy and a pollution legal liability policy for the Sleeper Gold Project. As part of the policy, New Sleeper Gold LLC paid an insurance premium and put funds in a commutation account used to reimburse reclamation costs and indemnity claims paid by New Sleeper Gold LLC.

The insurance policy covers reclamation costs in the event New Sleeper Gold LLC defaults on payment of its reclamation costs up to an aggregate of US \$25 million. The insurance premium is being amortized over ten years and the prepaid insurance balance at September 30, 2008 is \$1,574,458 (2007 - \$1,699,278). The commutation account earns interest at an annual effective rate equal to the one-year constant maturity treasury rate prevailing on the first day of each anniversary year. The balance in the commutation account at September 30, 2008 is \$3,210,477 (2007 - \$3,235,288).

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

**5. Mineral Property Interests**

Nevada, USA:	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Sleeper Gold Project	\$ 26,578,105	\$ 25,106,000
Mill Claims	2,479,642	2,462,194
Reese River	426,210	406,760
Spring Valley	20,242	20,242
	<u>\$ 29,504,199</u>	<u>\$ 27,995,196</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 venture partner.

In January 2004, the Company purchased the interest of the former joint venture partner, Kinross Gold Corporation, and formed a new joint venture (New Sleeper Gold LLC) 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) US \$8,000,000 for exploration and general operating purposes.

The Company acquired the remaining 50% interest in the New Sleeper Gold LLC joint venture on May 16, 2006 by a cash payment of \$5,000,000 and the issue of 10,000,000 shares of its common stock at a market value of \$0.32 per share, representing an aggregate of \$8,200,000 paid to New Sleeper Gold Corporation. The Company now owns 100% of New Sleeper Gold LLC.

In December 2006, the Company acquired title to previously leased mineral claims (part of the Sleeper Gold Project) for US \$750,000 (US \$300,000 paid to date) plus 250,000 shares (100,000 issued to date).

Payment can be made as four equal payments over four years or accelerated at the Company's discretion. The mineral claims are lodged as security against future payments. As at September 30, 2008, the remaining balance to complete this buyout is US\$450,000 (2007 – US \$600,000) and 150,000 (2007 – 200,000) common shares of the Company.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
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(unaudited)

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**5. Mineral Property Interests (cont'd)**

The Company has completed the sale of a 1% net smelter production royalty on the Sleeper Gold Property to the Ken Snyder Gold Syndicate for \$1,591,740 (US \$1,500,000).

**Mill Claims**

The Mill Creek Gold Property is owned 100% by the Company. The property, located in Lander County, Nevada, is an early stage (grass roots) gold project. A US \$1,600,000 exploration work program that included drilling, mapping, sampling and geophysics has been completed by the Company on the Property.

The Company has completed an extensive permitting process for the Mill Creek (Goat Window) Property, which has resulted in approval of a Plan of Operations Permit.

**Reese River**

On December 12, 2005, the Company entered into a formal agreement with Placer Dome U.S. Inc. ("Placer Dome") a subsidiary of Barrick Gold U.S. Inc. ("Barrick Gold"), to jointly explore three claim blocks in the Reese River Pediment, 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 carried out a US \$200,000 drilling program developed by both parties. The Company's expenditures for the above work exceeds the minimum required, and within the time allotted under the agreement. Placer Dome's interest (now owned by Barrick Gold) has now reverted to a 2% net smelter returns royalty.

**Spring Valley**

The Company has staked thirty-eight claims totaling 760 acres located in the Spring Valley area, Pershing County, Nevada. The Company granted a 1% net smelter production royalty on this property to a consultant to the Company.

**Title to Mineral Properties**

Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**Realization of Assets**

The investment in expenditures on mineral property interests comprises a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements and possible aboriginal rights, and the attainment of successful production from the properties or from the proceeds of their disposition.

Mineral exploration and development is highly speculative and involves inherent risks. While rewards if a feasible ore body is discovered might be substantial, few properties that are explored are ultimately development into producing mines. There can be no assurance that the current exploration programs by the Company will result in the discovery of economically viable quantities of ore.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

**6. Property and Equipment**

September 30, 2008	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Vehicles	\$ 109,697	\$ 74,041	\$ 35,656
Office equipment	114,863	96,151	18,712
Leasehold improvements	<u>18,574</u>	<u>18,497</u>	<u>77</u>
	<u>\$ 243,134</u>	<u>\$ 188,689</u>	<u>\$ 54,445</u>
September 30, 2007	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Vehicles	\$ 109,697	\$ 60,914	\$ 48,783
Office equipment	114,080	86,632	27,448
Leasehold improvements	<u>18,650</u>	<u>18,172</u>	<u>478</u>
	<u>\$ 242,427</u>	<u>\$ 165,718</u>	<u>\$ 76,709</u>

**7. 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.

As at September 30, 2008, the following information was assumed in measuring the reclamation and environmental obligation:

Undiscounted amount required	\$ 4,163,997
(US \$4,056,500)	
Expected timing of payments	2009 – 2053
Average credit-adjusted risk-free rate	11.00%
Inflation factor	2.0%

The commutation account (Note 4) is used to reimburse reclamation costs and indemnity claims paid by the Company.

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

	<u>2008</u>
Balance, beginning of year	\$ 744,222
Accretion expense	<u>48,382</u>
	<u>\$ 792,604</u>

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**8. Capital Stock and Contributed Surplus**

a) **Authorized**  
Unlimited common shares without par value.

b) **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 subsidiary 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. Options issued under the plan may be exercised during a period determined by the board of directors, which cannot exceed five years.

	September 30, 2008		September 30, 2007	
	Number of	Weighted	Number of	Weighted
	<u>Shares</u>	<u>Average</u>	<u>Shares</u>	<u>Average</u>
		<u>Exercise Price</u>		<u>Exercise Price</u>
Outstanding, beginning of period	10,110,000	\$ 0.34	8,960,000	\$ 0.36
Granted	2,550,000	\$ 0.11	750,000	\$ 0.35
Expired	(200,000)	\$ 0.45	(210,000)	\$ 0.34
Forfeited	(15,000)	\$ 0.20	-	-
Outstanding, end of period	<u>12,445,000</u>	<u>\$ 0.29</u>	<u>9,500,000</u>	<u>\$ 0.36</u>

The options granted during the period have an immediate vesting term. As at September 30, 2008, the Company had stock options outstanding and exercisable, enabling the holders to acquire common shares as follows:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
75,000	\$ 0.35	December 1, 2008
1,325,000	\$ 0.33	February 16, 2009
775,000	\$ 0.35	May 31, 2009
20,000	\$ 0.35	July 28, 2009
640,000	\$ 0.50	December 13, 2009
390,000	\$ 0.20	January 17, 2010
20,000	\$ 0.20	February 28, 2010
150,000	\$ 0.35	March 23, 2010
200,000	\$ 0.20	April 1, 2010
200,000	\$ 0.10	May 26, 2010
750,000	\$ 0.35	June 12, 2010
600,000	\$ 0.20	September 24, 2010
1,200,000	\$ 0.33	February 16, 2011
1,700,000	\$ 0.35	May 31, 2011
2,250,000	\$ 0.35	March 23, 2012
2,150,000	\$ 0.10	September 24, 2012
<u>12,445,000</u>		

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
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**8. Capital Stock and Contributed Surplus (cont'd)**

**c) Warrants**

	September 30, 2008		September 30, 2007	
	Number of <u>Shares</u>	Weighted Average <u>Exercise Price</u>	Number of <u>Shares</u>	Weighted Average <u>Exercise Price</u>
Outstanding, beginning of period	-	-	-	-
Issued	8,362,500	\$ 0.11	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding, end of period	<u>8,362,500</u>	<u>\$ 0.11</u>	<u>-</u>	<u>-</u>

The warrants issued during the period have an immediate vesting term. As at September 30, 2008, the Company had warrants outstanding and exercisable, enabling the holders to acquire common shares as follows:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
300,000	\$ 0.24	April 4, 2010
<u>8,062,500</u>	<u>\$ 0.10</u>	June 10, 2009
<u>8,362,500</u>		

**d) 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 weighted average assumptions for the six months ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Risk-free rate of return	3.10-3.56%	4.74%
Expected dividend yield	-	-
Expected stock price volatility	117% - 145%	79%
Expected option life in years	2.0 - 3.0	3.0

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.

During the six months ended September 30, 2008, the compensation cost of stock options granted was \$140,254. Stock-based compensation attributable to employees and consultants was - \$68,141, and to directors - \$72,113.

During the three months ended September 30, 2008, the compensation cost of stock options granted was \$114,846. Stock-based compensation attributable to employees and consultants was - \$42,733, and to directors - \$72,113.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
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**8. Capital Stock and Contributed Surplus (cont'd)**

**e) Earnings per share**

Basic earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted net earnings per share. The computations of basic net income (loss) per share and diluted net income (loss) per share for the six months ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Net income (loss) from operations	\$ (538,403)	\$ (700,739)
Basic weighted average shares	133,807,230	124,660,843
Effect of dilutive securities		
Stock options and warrants	<u>20,807,500</u>	<u>9,500,000</u>
Dilutive potential common shares	<u>154,614,730</u>	<u>134,160,843</u>
Earnings per share		
Basic	\$ (0.004)	\$ (0.006)
Diluted	<u>\$ (0.003)</u>	<u>\$ (0.005)</u>

**9. Related Party Transactions**

The Company paid no legal fees and expenses (2007 - \$16,652) to a law firm in which a director of the Company is a partner. The Company paid an aggregate of \$33,000 (2007 - \$33,000) in consulting fees to a director and officer of the Company, all of which (2007 - \$nil) is included in accounts payable. The Company paid salaries of \$80,000 (2007 - \$80,000) to a director and officer of the Company and \$18,000 (2007 - \$18,000) to a party related to a director and officer of the Company. As at September 30, 2008, \$10,934 (2007 - \$10,487) was due from a director and officer of the Company with respect to travel advances, and is included in receivables and prepayments.

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.

**10. Income Tax**

The net future tax asset resulting from these items has not been recognized, as realization is not considered more likely than not.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

**11. Segmented Information**

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

	<u>2008</u>	<u>2007</u>
Net income (loss)		
Canada	\$ (358,195)	\$ (275,238)
USA	(180,208)	(425,501)
	<u>\$ (538,403)</u>	<u>\$ (700,739)</u>
Assets		
Canada	\$ 275,857	\$ 750,604
USA	34,448,750	33,874,833
	<u>\$ 34,724,607</u>	<u>\$ 34,625,437</u>

**12. Commitments**

**a) Office leases**

The Company leases office space in Nevada. The lease agreement for this office space expires in November 2008 and will be renewed. The Nevada office lease requires the Company to pay \$18,000 annually as its share of base rent.

**b) 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 reviewable on October 1 of each year, when such remuneration may be increased, but not decreased. The remuneration for the President is \$160,000 per annum. Additionally, 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.

The Company entered into an employment contract with an officer of the Company effective April 1, 2007 whereby it will pay the officer \$66,000 per annum. Under the terms of the contract, remuneration is reviewable on April 1 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 officer shall receive two times the annual amount of salary in the year of termination.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the period ended September 30, 2008  
(unaudited)

**13. Prior Year Restatement and Comparative Figures**

The Company has concluded that the prior periods' financial statements incorrectly reflected the sale of the net smelter royalty on the Sleeper project. The proceeds \$1,591,740 should have been recorded against the capitalized value of the mineral property interest, as opposed to a revenue for accounting purposes.

As at March 31, 2008 the restatement of the consolidated balance sheet resulted in changes to the previously reported carrying values of assets and shareholders' equity as follows:

	Previously Reported	Correction	Restated
Assets			
Mineral Property Interests	\$30,575,414	\$(1,591,740)	\$28,983,674
Shareholders' Equity			
Deficit	(16,842,741)	(1,591,740)	(18,434,481)

For the six months ended September 30, 2007 comparative consolidated statement of operations and deficit, the restatement resulted in changes to the previously reported amounts as follows:

	Previously Reported	Correction	Restated
Other			
Sale of mineral property interest	\$1,591,740	\$(1,591,740)	\$0
Net income (loss) for the period	891,001	(1,591,740)	(700,739)
Deficit, end of period	(15,993,925)	(1,591,740)	(17,585,665)
Income (loss) per share	0.007	(0.013)	(0.006)

For the six months ended September 30, 2007 comparative consolidated statement of cash flow, the restatement resulted in changes to the previously reported amounts as follows:

	Previously Reported	Correction	Restated
Operating			
Net income (loss)	\$891,001	\$(1,591,740)	\$(700,739)
Investing			
Proceeds from sale of net smelter royalty	0	1,591,740	1,591,740

Certain of the prior periods' figures have been reclassified to conform to the financial statement presentation adopted for the current period ended September 30, 2008.

**14. Subsequent Events**

There were no subsequent events to report.

**X-Cal Resources Ltd.**  
**Consolidated Schedules of Mineral Acquisition and Exploration Costs**  
For the six months ended September 30, 2008 and the year ended March 31, 2008

	Period ended September 30, 2008					Year ended March 31, 2008				
	Sleeper Gold Project	Pipeline Area - Mill Claims	Reese River	Spring Valley	Total	Sleeper Gold Project	Pipeline Area - Mill Claims	Reese River	Spring Valley	Total
Mineral acquisitions and exploration expenditures, beginning of year	\$ 26,072,563	\$ 2,472,301	\$ 418,568	\$ 20,242	\$ 28,983,674	\$ 24,246,537	\$ 2,448,315	\$ 376,100	\$ 14,481	\$ 27,085,433
Acquisition and holding costs incurred										
Property acquisitions	-	-	-	-	-	171,225	-	-	-	171,225
Exploration expenditures										
Consulting	9,499	200	200	-	9,899	116,811	163	800	163	117,937
Geology, including consultant	20,983	-	-	-	20,983	137,307	-	-	-	137,307
Drilling and assaying	2,181	-	-	-	2,181	1,632,015	-	-	-	1,632,015
Field	28,924	-	-	-	28,924	184,152	5,145	21,137	5,430	215,864
Insurance	33,112	-	-	-	33,112	71,927	-	-	-	71,927
Licenses, fees and claim fees	200,636	-	-	-	200,636	197,129	38	155	40	197,362
Reclamation	-	-	-	-	-	9,525	-	-	-	9,525
Stock-based compensation	52,673	-	-	-	52,673	47,378	674	674	-	48,726
Office, wages, prof fees and travel	254,868	7,141	7,442	-	269,451	850,297	17,966	19,702	128	888,093
	602,876	7,341	7,642	-	617,859	3,246,541	23,986	42,468	5,761	3,318,756
Mineral exploration expenditures and interests before other costs	26,675,439	2,479,642	426,210	20,242	29,601,533	27,664,303	2,472,301	418,568	20,242	30,575,414
Proceeds from sale of capitalized equipment	(97,334)	-	-	-	(97,334)	-	-	-	-	-
Proceeds from sale of net smelter royalty	-	-	-	-	-	(1,591,740)	-	-	-	(1,591,740)
<b>Mineral interests, end of period</b>	<b>\$ 26,578,105</b>	<b>\$ 2,479,642</b>	<b>\$ 426,210</b>	<b>\$ 20,242</b>	<b>\$ 29,504,199</b>	<b>\$ 26,072,563</b>	<b>\$ 2,472,301</b>	<b>\$ 418,568</b>	<b>\$ 20,242</b>	<b>\$ 28,983,674</b>