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**X-Cal Resources Ltd.**

**CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

For the period ended September 30, 2009

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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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Website: [www.x-cal.com](http://www.x-cal.com)

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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 3, 2009

# X-Cal Resources Ltd.

## Consolidated Balance Sheets

	September 30, 2009 (unaudited)	March 31, 2009 (audited)
<b>Assets</b>		
Current		
Cash	\$ 673,278	\$ 1,216,938
Receivables and prepayments (Note 9)	33,228	72,093
Marketable securities	3,860	3,402
	710,366	1,292,433
Prepaid insurance (Note 4)	1,322,818	1,447,638
Reclamation bond – commutation account (Note 4)	3,159,419	3,915,636
Environmental bonds	-	11,152
Mineral property interests (Note 5)	30,670,754	30,048,095
Property and equipment (Note 6)	35,867	44,082
	\$ 35,899,224	\$ 36,759,036
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 66,156	\$ 310,500
Reclamation and environmental obligations (Note 7)	1,175,071	1,382,219
	1,241,227	1,692,719
<b>Shareholders' Equity</b>		
Capital stock (Note 8)	50,825,176	50,365,425
Contributed surplus	3,570,462	3,555,851
Deficit	(19,737,641)	(18,854,959)
	34,657,997	35,066,317
	\$ 35,899,224	\$ 36,759,036
Commitments (Note 13)		
Subsequent Events (Note 14)		

(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.**  
**Consolidated Statements of Operations**  
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2009	2008	2009	2008
<b>General and administrative expenses</b>				
Accounting and audit	\$ 38,326	\$ 49,524	\$ 53,326	\$ 64,024
Amortization	503	5,396	8,213	10,792
Insurance	71,661	92,242	156,023	163,059
Investor relations	4,439	-	8,237	-
Legal	21,051	22,915	44,387	36,608
Office and other	14,015	3,823	23,561	12,789
Regulatory fees	7,488	8,126	18,050	28,451
Rent	4,500	-	9,000	11,574
Salaries, consultants' and directors' fees	35,498	68,991	74,443	103,017
Shareholder communications	11,906	13,968	13,082	16,808
Stock-based compensation (Note 8d)	-	80,125	-	87,581
Telecommunications	1,500	653	2,117	1,949
Travel	15,682	(783)	25,536	9,074
	<u>226,569</u>	<u>344,978</u>	<u>435,975</u>	<u>545,726</u>
<b>Loss before other items</b>	<b>(226,569)</b>	<b>(344,978)</b>	<b>(435,975)</b>	<b>(545,726)</b>
<b>Other</b>				
Accretion expense	(37,522)	(24,191)	(75,044)	(48,382)
Foreign exchange gain (loss)	(333,233)	(5,817)	(380,635)	(5,953)
Gain on sale of property and equipment	-	236	-	5,379
Interest and other income	5,200	24,500	8,972	56,279
Sale of mineral property interest	-	-	-	-
Gain on sale of net smelter royalty	-	-	-	-
	<u>(592,114)</u>	<u>(5,272)</u>	<u>(446,707)</u>	<u>7,323</u>
<b>Net income (loss)</b>	<b>(592,114)</b>	<b>(350,250)</b>	<b>(882,682)</b>	<b>(538,403)</b>
<b>Deficit, beginning of period</b>	<b>(19,145,527)</b>	<b>(18,622,634)</b>	<b>(18,854,959)</b>	<b>(18,434,481)</b>
<b>Deficit, end of period</b>	<b>\$ (19,737,641)</b>	<b>\$ (18,972,884)</b>	<b>\$ (19,737,641)</b>	<b>\$ (18,972,884)</b>
Income (loss) per share	<u>\$ (0.004)</u>	<u>\$ (0.003)</u>	<u>\$ (0.005)</u>	<u>\$ (0.004)</u>
Weighted average number of common shares outstanding	<u>166,998,439</u>	<u>136,926,323</u>	<u>165,192,944</u>	<u>133,807,230</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,	
	2009	2008	2009	2008
Cash derived from (applied to)				
<b>Operating</b>				
Net income (loss)	\$ (592,114)	\$ (350,250)	\$ (882,682)	\$ (538,403)
Items not involving cash:				
Stock-based compensation	-	80,125	-	87,581
Amortization	503	5,396	8,215	10,792
Accretion expense	37,522	24,191	75,044	48,382
Changes in non-cash working capital items:				
Receivables and prepayments, accounts payables and accrued liabilities	370,930	121,776	293,667	83,482
	<u>(183,159)</u>	<u>(118,764)</u>	<u>(505,756)</u>	<u>(308,166)</u>
<b>Financing</b>				
Shares issued for cash, net of issuance costs and subscriptions received in advance	-	6,000	453,750	651,000
<b>Investing</b>				
Mineral property acquisitions	-	-	(53,461)	-
Mineral property expenditures	(232,788)	5,162	(438,193)	(328,309)
Purchase of property and equipment	-	-	-	37,072
	<u>(232,788)</u>	<u>5,162</u>	<u>(453,750)</u>	<u>(291,237)</u>
Net increase (decrease) in cash	(415,947)	(107,602)	(543,660)	51,597
Cash and term deposits				
Beginning of period	<u>1,089,225</u>	<u>305,135</u>	<u>1,216,938</u>	<u>145,936</u>
End of period	\$ <u>673,278</u>	\$ <u>197,533</u>	\$ <u>673,278</u>	\$ <u>197,533</u>
<b>Non-cash investing and financing activities</b>				
Stock-based compensation capitalized in mineral property interests	\$ -	\$ -	\$ 14,611	\$ 52,673
Property acquisition	\$ -	\$ -	\$ 6,000	\$ -

(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 (Restated) (Note 14)	-	-	-	-	(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	34,547,116	2,310,000	(165,000)	-	-	2,145,000
Share issuance costs	-	(57,572)	-	-	-	(57,572)
Property acquisition	100,000	3,750	-	-	-	3,750
Stock-based compensation	-	-	-	93,150	-	93,150
Net loss for the year	-	-	-	-	(420,478)	(420,478)
<b>Balance: March 31, 2009</b>	162,410,939	\$ 50,365,425	\$ -	\$ 3,555,851	\$ (18,854,959)	\$ 35,066,317
Issuance of shares on exercise of warrants	4,537,500	453,751	-	-	-	453,751
Property acquisition	50,000	6,000	-	-	-	6,000
Stock-based compensation	-	-	-	14,611	-	14,611
Net loss for the period	-	-	-	-	(882,682)	(882,682)
<b>Balance: September 30, 2009</b>	166,998,439	\$ 50,825,176	\$ -	\$ 3,570,462	\$ (19,737,641)	34,657,997

(See accompanying notes to consolidated financial statements)

# **X-Cal Resources Ltd.**

## **Notes to the Consolidated Financial Statements**

### **For the six months ended September 30, 2009 and 2008**

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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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) on a going concern basis. This presumes funds will be available to finance ongoing 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 consolidated 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.

For the six months ended September 30, 2009, the Company incurred a net loss of \$882,682 (2008 - \$538,403). At September 30, 2009, the Company had a deficit of \$19,737,641 (2008 - \$18,258,712). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund planned exploration and its ongoing administrative expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to conduct its planned explorations, meet its administrative overhead and maintain its mineral interests.

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 or proceeds from disposition of mineral interests.

#### **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, the functional and reporting currency of the Company.

##### **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. All significant inter-company transactions and balances have been eliminated.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

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

The preparation of financial statements in conformity with Canadian GAAP 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 variables used in the calculation of stock-based compensation expense. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**c) Revenue recognition**

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

**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 and liabilities are translated at rates prevailing at the time of the acquisition of the assets or assumption of liabilities, 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 Canadian GAAP, 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.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

**f) Mineral property interests (cont'd)**

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.

**g) 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. Additions during the year are amortized at one-half the annual rate.

**h) 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 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.

**i) Stock-based compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations or mineral properties, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

**j) Asset retirement obligations ("ARO")**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

**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 assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

**l) Basic and diluted loss per share**

Basic 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, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**m) Warrants**

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

**n) Financial instruments and comprehensive income**

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

Comprehensive income (loss) is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. It is made up of net income and other comprehensive income. Other comprehensive income consists of gains and losses affecting shareholders' equity that under Canadian GAAP are excluded from net income. The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's consolidated statements of operations equals comprehensive loss.

**o) New accounting standards**

Effective April 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

**i) Capital Disclosures (Section 1535)**

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in Note 10.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

**o) New Accounting standards (cont'd)**

**ii) Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863)**

Sections 3862 and 3863 replace Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in Note 3.

**iii) Going Concern**

In June 2007, the CICA amended Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of the 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 consolidated financial statements are prepared and the reason why the company is not considered a going concern. The Company adopted this policy on April 1, 2008 with no significant effect on these consolidated financial statements.

**iv) EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009 the EIC of the CICA issued EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”, which clarifies that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. The Company adopted this recommendation in its fair value determinations for its fiscal year ended March 31, 2009 with no significant effect on these consolidated financial statements.

# **X-Cal Resources Ltd.**

## **Notes to the Consolidated Financial Statements**

### **For the six months ended September 30, 2009 and 2008**

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

##### **o) New Accounting standards (cont'd)**

##### **(iv) EIC-174, Mining Exploration Costs**

On March 27, 2009 the Emerging Issues Committee ("EIC") of the CICA issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition for long-lived assets. EIC-174 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-174. The Company adopted this recommendation for its fiscal year ended March 31, 2009 with no significant effect on these consolidated financial statements.

##### **p) Future accounting changes**

##### **i) International Financial Reporting Standards ("IFRS")**

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 IFRS standards will be effective for the Company for interim and fiscal period reporting commencing April 1, 2011. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended March 31, 2011 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; however, management continues to monitor these developments.

##### **ii) Business Combinations**

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

# **X-Cal Resources Ltd.**

## **Notes to the Consolidated Financial Statements**

### **For the six months ended September 30, 2009 and 2008**

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

##### **p) Future accounting changes (cont'd)**

##### **ii) Business Combinations (cont'd)**

These new sections apply to the Company's interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

#### **3. Risk Management and Financial instruments**

The Company classifies its cash and cash equivalents as held-for-trading; receivables as loans and receivable; marketable securities as held for trading, reclamation bond – commutation account and environmental bonds as held-to-maturity; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. Marketable securities are recorded at fair value as they are marked-to-market through net income at each period end. The book values of reclamation bond – commutation account and environmental bonds approximate their fair values as the stated rate approximates the market rate of interest.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

##### **a) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents, marketable securities and receivables are exposed to credit risk. The credit risk on cash and cash equivalents and term deposits are minimized as cash and cash equivalents and term deposits are held at major Canadian and US financial institutions. The Company is not exposed to significant credit risk on its receivables.

##### **b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet its commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company has cash and cash equivalents at September 30, 2009 in the amount of \$673,278 in order to meet short-term business requirements. At September 30, 2009, the Company had current liabilities of \$66,156. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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**3. Risk Management and Financial instruments (cont'd)**

**c) Market risk**

The significant market risks to which the Company is exposed are interest rate risk, foreign exchange risk and other price risk. These are discussed further below:

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk on its cash and reclamation bond – commutation account, which are subject to market interest rate. A hypothetical 1% change in the interest rate would impact the Company's earnings by approximately \$28,000.

**Foreign exchange risk**

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign exchange fluctuation related to its mineral properties and expenditures thereon, and reclamation bonds held in the US. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows.

**Other price risk**

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk on its financial instruments.

**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, 2009 is \$1,322,818 (2008 - \$1,574,458). 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, 2009 is \$3,159,419 (2008 - \$3,210,477). Included in the reclamation bond – commutation account is a reclamation bond held with the government.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

**5. Mineral Property Interests**

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Nevada, USA		
Sleeper Gold Project	\$ 27,683,547	\$ 26,578,105
Mill Claims	2,498,889	2,479,642
Reese River	445,457	426,210
Spring Valley	42,861	20,242
	<u>\$ 30,670,754</u>	<u>\$ 29,504,199</u>

See attached Consolidated Schedules of Mineral Acquisition and Exploration Costs.

**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\$325,000 paid as at year-end) plus 250,000 shares (200,000 issued as at year-end). The mineral claims are lodged as security against future payments. As at September 30, 2009, the remaining balance to complete this buyout is US\$400,000 (2008 - US\$450,000) and nil (2008 - 150,000) common shares of the Company.

# **X-Cal Resources Ltd.**

## **Notes to the Consolidated Financial Statements**

### **For the six months ended September 30, 2009 and 2008**

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

##### **Sleeper Gold Project (cont'd)**

An amendment to the original agreement, signed in November 2008, allows the remaining payments to be spread into three payment to be made in December of 2009, 2010, and 2011.

In June 2007, the Company 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 Royal Gold, Inc.) has now reverted to a 2% net smelter returns royalty.

##### **Spring Valley**

The Company has staked 38 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.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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

**Realization of assets**

The investment in and expenditures on mineral property interests comprise 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 developed into producing mines. There can be no assurance that the current exploration programs will result in the discovery of economically viable quantities of ore.

**Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions 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 properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**6. Property and Equipment**

September 30, 2009	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Vehicles	\$ 109,697	\$ 86,266	\$ 23,431
Office equipment	114,863	102,427	12,436
Leasehold improvements	<u>18,754</u>	<u>18,754</u>	<u>-</u>
	<u>\$ 243,314</u>	<u>\$ 207,447</u>	<u>\$ 35,867</u>
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>

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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**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, 2009 and 2008, the following information was assumed in measuring the reclamation and environmental obligation:

	<u>2009</u>	<u>2008</u>
Undiscounted amount required (US\$4,056,500)	\$ 4,343,295	\$ 4,163,997
Expected timing of payments	2010 – 2053	2009 – 2053
Average credit-adjusted risk-free rate	9.0%	11.0%
Inflation factor	2.0%	2.0%

The undiscounted amount required is based on a report obtained in May 2007. 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 ARO:

	<u>2009</u>	<u>2008</u>
Balance, beginning of period	\$ 1,382,219	\$ 744,222
Changes in credit-adjusted risk-free rate	-	-
Accretion expense	75,045	48,382
Payments made	(73,321)	-
Foreign exchange adjustment	(208,872)	-
Balance, June 30	<u>\$ 1,175,071</u>	<u>\$ 792,604</u>

**8. Capital Stock and Contributed Surplus**

**a) Authorized**

Unlimited number of common shares without par value.

**b) Issued**

At September 30, 2009, 166,998,439 common shares were issued and outstanding.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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**8. Capital Stock and Contributed Surplus (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 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.

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	12,370,000	\$ 0.27	10,110,000	\$ 0.34
Granted	200,000	\$ 0.10	2,550,000	\$ 0.11
Expired	(795,000)	\$ 0.35	(200,000)	\$ 0.45
Forfeited	-	-	(15,000)	\$ 0.20
Outstanding, end of period	11,775,000	\$ 0.26	12,445,000	\$ 0.29

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

**8. Capital Stock and Contributed Surplus (cont'd)**

**c) Stock options (cont'd)**

The options granted during the year have an immediate vesting term. As at September 30, 2009, the Company had stock options outstanding and exercisable, enabling the holders to acquire common shares as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
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
725,000	\$ 0.10	February 27, 2011
1,700,000	\$ 0.35	May 31, 2011
200,000	\$ 0.10	June 18, 2011
2,150,000	\$ 0.10	September 24, 2011
600,000	\$ 0.10	February 27, 2012
2,250,000	\$ 0.35	March 23, 2012
<u>11,775,000</u>		

**d) Warrants**

	<u>2009</u>		<u>2008</u>	
	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	16,824,039	\$ 0.10	-	-
Issued	-	-	8,362,500	\$ 0.11
Exercised	(4,537,500)	\$ 0.10	-	-
Expired	(3,525,000)	\$ 0.10		
Outstanding, end of period	<u>8,761,539</u>	<u>\$ 0.10</u>	<u>8,362,500</u>	<u>\$ 0.11</u>

As at September 30, 2009, the Company had warrants outstanding and exercisable, enabling the holders to acquire common shares as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
300,000	\$ 0.24	April 4, 2010
8,461,539	\$ 0.10	March 30, 2011
<u>8,761,539</u>		

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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**8. Capital Stock and Contributed Surplus (cont'd)**

**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 weighted average assumptions for the six months ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Risk-free rate of return	1.33%	3.10-3.56%
Expected dividend yield	-	-
Expected stock price volatility	155%	117-145%
Expected option life in years	2.0	2.0-3.0

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, 2009, the compensation cost of stock options granted was \$14,611 (\$0.07 per option), All of which was capitalized to mineral properties. All stock-based compensation was attributable to consultants.

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

**9. Related Party Transactions**

The Company paid legal fees and expenses of \$9,940 (2008 - \$nil) to a law firm in which a director of the Company is a partner. The Company incurred consulting expenses of \$33,000 (2008 - \$33,000) to a director and officer of the Company. The Company paid salaries of \$80,000 (2008 - \$80,000) to a director and officer of the Company and \$27,250 (2008 - \$18,000) to a party related to a director and officer of the Company. As at September 30, 2009, \$2,566 (2008 - \$10,934 due from) was due to a director and officer of the Company, and is included in accounts payable. The Company incurred rental expenses of \$9,000 with a related party. A bonus of \$50,000 was paid to a director and officer of the Company. Directors and officers of the Company invested in shares in X-Cal throughout the period. Details of the share purchases are available on S.E.D.I.

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.

**X-Cal Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended September 30, 2009 and 2008**

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**10. Capital Management**

The Company considers its capital to be all components of shareholders' equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the exploration of its properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Management reviews the capital structure on a regular basis to ensure that objectives are met. The Company's capital is not subject to any externally imposed capital requirements.

The Company's overall strategy remains unchanged from the prior year.

**11. Income Taxes**

The net future tax asset resulting from these items has not been recognized in these accounts, as realization is not considered more likely than not. A valuation allowance has been applied against the entire net future income tax asset.

**12. Segmented Information**

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

	<u>2009</u>	<u>2008</u>
Net income (loss)		
Canada	\$ (824,342)	\$ (358,195)
USA	(253,868)	(180,208)
	<u>\$ (1,078,210)</u>	<u>\$ (538,403)</u>
Assets		
Canada	\$ 677,138	\$ 275,857
USA	35,222,086	34,448,750
	<u>\$ 35,899,224</u>	<u>\$ 34,724,607</u>

**13. Commitments**

**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 \$60,000 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**  
**For the six months ended September 30, 2009 and 2008**

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**13. Commitments (cont'd)**

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 a management 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.

**14. Subsequent Events**

There are no subsequent events to report.

**X-Cal Resources Ltd.**  
**Consolidated Schedules of Mineral Acquisition and Exploration Costs (see Note 5)**  
**For the six months ended September 30, 2009**

	Period ended September 30, 2009					Year ended March 31, 2009				
	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	\$ 27,112,845	\$ 2,484,220	\$ 430,788	\$ 20,242	\$ 30,048,095	\$ 26,072,563	\$ 2,472,301	\$ 418,568	\$ 20,242	\$ 28,983,674
Acquisition and holding costs incurred										
Property acquisitions	59,461	-	-	-	59,461	34,573	-	-	-	34,573
Exploration expenditures										
Consulting	40,307	-	-	-	40,307	19,545	200	200	-	19,945
Geology, including consultant	-	-	-	-	-	75,758	-	-	-	75,758
Drilling and assaying	-	-	-	-	-	72	-	-	-	72
Field	48,665	-	-	-	48,665	53,995	-	-	-	53,995
Insurance	31,836	-	-	-	31,836	38,807	-	-	-	38,807
Licenses, fees and claim fees	201,293	6,169	6,169	22,619	236,250	197,013	-	-	-	197,013
Reclamation	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	14,611	-	-	-	14,611	37,870	-	-	-	37,870
Office, wages, prof fees and travel	247,849	8,500	8,500	-	264,849	440,815	11,719	12,020	-	464,554
	<b>584,561</b>	<b>14,669</b>	<b>14,669</b>	<b>22,619</b>	<b>636,518</b>	<b>863,875</b>	<b>11,919</b>	<b>12,220</b>	<b>-</b>	<b>888,014</b>
Mineral exploration expenditures and interests before other costs	27,756,867	2,498,889	445,457	42,861	30,744,074	26,971,011	2,484,220	430,788	20,242	29,906,261
Proceeds from sale of capitalized equipment	-	-	-	-	-	(97,334)	-	-	-	(97,334)
Change in asset retirement obligation	(73,320)	-	-	-	(73,320)	239,168	-	-	-	239,168
Proceeds from sale of net smelter royalty	-	-	-	-	-	-	-	-	-	-
<b>Mineral interests, end of period</b>	<b>\$ 27,683,547</b>	<b>\$ 2,498,889</b>	<b>\$ 445,457</b>	<b>\$ 42,861</b>	<b>\$ 30,670,754</b>	<b>\$ 27,112,845</b>	<b>\$ 2,484,220</b>	<b>\$ 430,788</b>	<b>\$ 20,242</b>	<b>\$ 30,048,095</b>