
X-CAL RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2006

PO Box 48479 Bentall Centre
Vancouver, BC V7X 1A0
Tel: 604-662-8245
Fax: 604-688-7740
email: invrel@x-cal.com
Website: www.x-cal.com

X-CAL RESOURCES LTD.

CORPORATE INFORMATION

DIRECTORS

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

AUDITORS

Smythe Ratcliffe Chartered Accountants, Vancouver, British Columbia

SHARES LISTED

The Toronto Stock Exchange

TRANSFER AGENT

Computershare Investor Services Inc., Toronto, Canada

CORPORATE ADDRESS

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Vancouver, BC V7X 1A0
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Website: www.x-cal.com

AUDITORS' REPORT

TO THE SHAREHOLDERS OF X-CAL RESOURCES LTD.

We have audited the consolidated balance sheet of X-Cal Resources Ltd. as at March 31, 2006 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, Canada

June 14, 2006

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

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

(See accompanying notes to the consolidated financial statements)

On behalf of the board:

"Shawn Kennedy"

Shawn Kennedy, Director

"John Arnold"

John Arnold, Director

X-Cal Resources Ltd.
Consolidated Statements of Operations and Deficit

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

(See accompanying notes to the consolidated financial statements)

X-Cal Resources Ltd.

Consolidated Statements of Cash Flows

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

(See accompanying notes to consolidated financial statements)

X-Cal Resources Ltd.

Notes to the Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

1. Nature of Operations and Basis of Presentation

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

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

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

2. Summary of Significant Accounting Policies

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

Principles of consolidation

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

Use of estimates

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

Revenue Recognition

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

Translation of foreign currencies

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

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

X-Cal Resources Ltd.

Notes to the Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

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

Cash and term deposits

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

Mineral property interests

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

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

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

Reclamation and environmental costs

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

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

Property and equipment

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

Capital stock issued for other than cash

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

X-Cal Resources Ltd.

Notes to the Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

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

Stock-based compensation

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

Future income taxes

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

Loss per share

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

Financial Instruments

(a) Fair value

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

(b) Interest rate risk

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

(c) Foreign currency risk

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

3. Comparative Figures

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

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

4. Mineral Property Interests

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

Sleeper Gold Project

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

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

- New Sleeper Gold Corporation contributed US \$20,000,000 in cash to the joint venture.
 - The Company contributed its interest in the Sleeper Gold Project to the joint venture.
 - The US \$20,000,000 cash contribution by New Sleeper Gold Corporation was applied to:
 - i) US \$4,000,000 to exercise the option to purchase the Kinross Gold interest in the properties;
 - ii) US \$8,000,000 to fund a reclamation and pollution legal liability insurance policy and a reclamation reserve of which US \$5,300,000 was expended by March 31, 2004; the remaining US \$2,700,000 was released subsequently and made available for exploration and general operating purposes; and
 - iii) the balance of US \$8,000,000 for exploration and general operating purposes.
 - The Company and New Sleeper Gold Corporation agreed to make additional equal capital contributions should additional funds be required. During 2006, the Company contributed CDN \$548,009 (2005 - \$Nil). Should either party not meet its capital contributions commitment, the interest of that party will be subject to dilution.
- (a) These consolidated financial statements include the Company's 50% interest, expressed in Canadian dollars, of the net assets and net expenses of New Sleeper Gold LLC joint venture as at and for the period from inception to March 31, 2006:

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

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

4. Mineral Property Interests (cont'd)

Sleeper Gold Project (cont'd)

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

Mill Claims

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

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

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

5. Property and Equipment

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

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

6. Reclamation and Environmental Obligations

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

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

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

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

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

7. Capital Stock

(a) Authorized:

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

(b) Issued:

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

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

7. Capital Stock (cont'd)

(c) Stock options

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

Summary of stock option activity:

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

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

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

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

7. Capital Stock (cont'd)

(d) Warrants

Summary of share warrant activity:

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

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

(e) Stock-based compensation

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

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

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

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

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

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

8. Related Party Transactions

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

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Income Taxes

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

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

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

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

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

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

9. Income Taxes (cont'd)

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

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

10. Segmented Information

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

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

11. Commitments

(a) Office lease

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

(b) Management agreements

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

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

11. Commitments (cont'd)

(b) Management agreements (cont'd)

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

12. Subsequent Events

(a) Private placement

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

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

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

(b) Sleeper Gold Property

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

X-Cal Resources Ltd.
Consolidated Schedules of Mineral Acquisition and Exploration Costs
For the years ended March 31, 2006 and 2005

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

