

MANAGEMENT DISCUSSION AND ANALYSIS

(for the six months ended September 30, 2005)

This interim Management Discussion and Analysis ("MD & A") reviews the operating results and financial position of X-Cal Resources Ltd. ("X-Cal" or the "Company") and compares the financial results for the second quarter ending September 30, 2005 with those of the corresponding quarter of 2004. It is also an update to the Company's annual MD&A for the year ended March 31, 2005 and interim MD&A for the quarter ended June 30, 2005 and should be read in conjunction with the audited March 31, 2005 and unaudited June 30, 2004 Consolidated Financial Statements and related Notes. The reader is encouraged to review the Company's financial statements in conjunction with this document copies of which are available on the SEDAR website: www.sedar.com.

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

The information in this Management Discussion and Analysis contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The forward-looking statements are made as of November 10, 2005.

All references to "2005" refer to the six months ended September 30, 2005, and all references to "2004" refer to the six months ended September 30, 2004, unless otherwise noted.

General

The Company is an active resource exploration company focused on the identification and delineation of gold and silver mineral resources on its Sleeper and Mill Creek properties in Nevada, USA. X-Cal has controlled these properties since 1993 and 1992, respectively. The Company has recently entered into a letter agreement with Placer Dome to acquire a third Nevada gold project, the Reese River Pediment project. Title will be transferred to the Company upon completion of the detailed agreement. The Company depends on private placements and joint ventures to fund its corporate activities. These proceeds are used for investigation and appraisal of targeted mineral zones on its concessions, the administration and maintenance of the Company's operations, and compliance with all regulatory requirements.

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

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

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

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

Sleeper Gold – Joint Venture

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

The Sleeper Gold Project is a 30 square mile gold district located in Humboldt County, Nevada. A 50% interest in the Sleeper project was acquired by New Sleeper Gold Corporation, a publicly traded reporting issuer (NWS.V) in return for providing initial funding to the New Sleeper Gold LLC joint venture ("Sleeper Joint Venture") (50% X-Cal/50% New Sleeper). The Company contributed its interest in the Sleeper Gold Project to the Sleeper Joint Venture and New Sleeper Gold Corporation capitalized the Sleeper Joint Venture with US \$20,000,000 to explore the Sleeper Gold Project. The Sleeper Joint Venture company treasury is independent of both companies and managed on behalf of the Sleeper Joint Venture by New Sleeper Gold Corporation. The Sleeper Joint Venture is operated by a committee composed of members from each company. The work programs are being managed by New Sleeper. A National Instrument 43-101-compliant technical report has been submitted by each party. The technical reports can be viewed on the companies' web sites and are also available on SEDAR at www.sedar.com.

The 2005 drilling program has been focused on evaluating targets near the Sleeper pit and the pediment immediately to the north, south, and west of the pit. Twenty three diamond drill holes (4402 meters) and 17 reverse circulation drill holes (2880 meters) have been completed since the Sleeper Joint Venture's joint press release of November 22, 2004.

Two potential target types have been recognized at Sleeper; the first target type is relatively low in grade, occurs near current ground level, and may be amenable to mining by open-pit methods. The other target type is relatively higher in grade and is encountered at depth. Deep targets are not likely to be profitably mined by open pit methods, yet may be economic using underground mining methods. Independent from the Sleeper Joint Venture technical team, X-Cal feels that a third exploration target type, Hishikari type of mineralization at the volcanic sediment interface, is possible and has initiated an independent review of data.

The Company encourages readers to view the news release dated August 31, 2005 for a detailed report on locations and results of the 2005 drill program to that date.

A detailed resource estimate is currently in progress to define the distribution, grade and quantity of mineralization remaining in the Sleeper Pit after mining by Amax. The resource estimates, in conjunction with the large volume of new exploration data, will be used to clarify which areas warrant infill drilling and to identify other locations where further drilling may penetrate previously unrecognized mineralized pods. The resource estimates are expected to be finalized in the last quarter of 2005.

The exploration program for the years 2004 and 2005 include geochemical surveys, a variety of geophysical surveys, sampling and mapping in addition to 75,000 feet of core and reverse circulation drilling. Significant drilling results, progress reports and exploration target maps were released by way of news releases by the Company specifically, dated June 1, 2004, June 30, 2004, November 22, 2004, and February 2, 2005. A summary of the 2005 work program and drilling results was released August 31, 2005.

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

West Wood

This zone is located on the south western margin of the Sleeper Pit. Gold-bearing hydrothermal sulphide breccia was first intersected in 1994 but follow up drilling was not undertaken. Before entering into the Sleeper Joint Venture, X-Cal drilled 22 reverse circulation holes from 1996 – 2003. Continued core drilling of the West Wood breccia zone has confirmed that higher grade gold mineralization is hosted by colloform banded quartz veins, very similar in appearance to the high grade mineralization mined from the Sleeper Pit between 1986 and 1996. On the basis of the core drilling completed to date further core drilling is proposed at West Wood to define this mineralization. A resource calculation for West Wood is underway at this time.

Facilities

The Facilities area is on the east side of the Sleeper Pit. The objective of the drilling program was to test previously-identified mineralization. The Sleeper Joint Venture had planned a 30-hole program to follow up widely spaced drilling in 1987-1988. Information available to the Company indicates that a total of 22 holes have been drilled to date with several holes being completed in a previously inaccessible area. Further drilling is proposed to define the extent of near surface mineralization encountered during the program. The Facilities area will be included in the resource calculations that are being compiled at this time for the Sleeper Gold Project and will be described in more detail in the pending NI-43-101 report which will follow the release of resource figure for the property.

Sleeper Pit

A detailed review of the Sleeper Pit drilling and geological information was undertaken to assess the potential for extensions of higher grade and bonanza style gold mineralization below the pit. The Sleeper Joint Venture has completed six core holes and one wedged directional drill hole to test for extensions to gold mineralization under the Sleeper Pit which is now flooded. In total 14,740 ft of drilling was completed. Although none of these holes cut high grades of gold or silver mineralization, four of these deep holes cut lower grade gold mineralization which is interpreted to be feeder zones to the mineralization at higher elevations. The Sleeper Pit area is also part of the resource calculations that are being compiled for the Sleeper Gold Project.

Northwest Target Area

A new target area west of Bedrock Casino, where early stage drill holes are encouraging and further drilling has been authorized.

Several structures that may host economic gold grades have been identified from compilation of limited previous drilling in the Northwest Target Area, airborne magnetics and reconstruction of paleotopography.

The Northwest Target Area was first defined by gravity and IP data. Several major structural breaks and zones of hydrothermal alteration were interpreted from three phases of ground gravity surveys. Two conspicuous chargeability anomalies were recognized in the interpretation of seven IP lines that run on the northwest margin of the Sleeper Pit. These anomalies are located in the vicinity of a large zone of hydrothermal alteration identified from the gravity data.

Geological information acquired by relogging cuttings from drill holes BC-03-03 (X-Cal) and S97-110R was of particular interest in defining the Northwest Target Area. Cuttings from the pediment gravel with colloform banded textures were identified between 142 and 164 meters in BC-03-03. Gold grades in the 22 meter interval averaged 0.15 g/t; within this interval the highest gold grade was 0.55 g/t Au over 1.5 meters. Gold grades averaging 0.3 g/t over 52 meters and with assays as high as 3 g/t were present in drill hole S97-110R. The presence of colloform banded quartz, altered rhyolite, and elevated gold grades in pediment gravels suggests the presence of mineralized source rock. The source may have been the Sleeper Vein but these holes may also indicate the presence of another, closer, bedrock gold occurrence.

Five core holes have recently been completed in the Northwest Target Area. Gold grades in assays have been low, however, alteration and structures suggest proximity to a potentially mineralized hydrothermal system.

Southwest Target Area

The Southwest Target Area is a new target identified south west of the Sleeper Pit where several surveys have indicated potential.

The Southwest Target Area was first identified from a magnetic anomaly. Mercury soil gas sampling and infill sampling, completed in two phases in 2004 and 2005, identified several anomalous areas. The most conspicuous mercury anomalies are located southwest of the Sleeper Pit. Three of the anomalies coincide with structural features interpreted from gravity data and one anomaly coincides with an area of hydrothermal alteration also interpreted from gravity data.

An eight-line magnetotellurics survey (deep resistivity) totaling 24 line kilometers and including 2,000 meters of Titan (deep chargeability and resistivity) was recently completed on both the Northwest and Southwest target areas. We expect this work to further refine the delineation of areas of alteration and assist in the siting of drill holes.

Leach Pad 1

A program of Sonic drilling was commenced on Leach Pad 1. The objective of this program was to determine the grade of the material on Leach Pad 1 and to collect sufficient material for comprehensive metallurgical test work. The results of this program are inconclusive. Additional drilling and sampling of the heaps is required for an accurate assessment of the potential of this above ground material.

Alma-Dome-Electrum

The Alma mine was the site of surface and underground workings. Four core holes were completed at Alma in 2004 to test for the presence of gold in structural traps. Only one significant intercept was returned: 8.5 meters of 0.76 g/t Au. The Company's view is that the significance of the mineralization at the Alma is an exploration tool and that the gold bearing structure evident at the Alma should be tracked to a volcanic host and drilled both at the volcanic sediment contact and in the volcanics at structural intersections. Discussions with the Joint Venture's technical team and operator will be undertaken as further drilling is postponed in favor of other higher priority targets within Sleeper Gold district.

The Electrum target was drilled to 224 meters in mudstone and fine sandstone some of which contained graphite. No recognizable mineralization was seen and no significant gold values were present in assays.

Range Front

The Range Front Fault, located east of the Sleeper Pit, is parallel to other north easterly trending structures further to the west which hosted the Sleeper Vein and the Wood Vein. The proposed drill testing scheduled to commence in early 2005 was delayed due to permitting. The merits of this target and the potential for Hishikari style of mineralization are a topic of discussion with the technical committee meetings. The Company is looking to independent, recognized, international consultants for additional input on the potential of this area.

Future Exploration

The budget for the 2005 Sleeper Joint Venture work program was set at \$US 5 Million in January.

The targets in the 2005 program include the Range Front Fault target area, located east of the Sleeper Pit where the Sleeper Volcanics contact the adjacent sediments. Other targets to be followed up include extensions to the north and south of the Sleeper mineralization, Bedrock Casino, and a number of other targets in the vicinity of the Sleeper Pit.

The Sleeper Joint Venture has begun to draw equal amounts of exploration funds from the treasuries of both X-Cal and New Sleeper. The total contribution by X-Cal for the balance of 2005 is not expected to exceed \$US 1 million. The Company has its portion of exploration funds for the Sleeper Gold Project in the treasury. Joint Venture technical committee meetings will determine the work program for the balance of this year.

The Company is committed to the success of the Sleeper Gold Project and remains confident in the potential of the Sleeper Gold District for new economic discoveries. As a part of management practice, the Company has begun a review of the new exploration data that has been generated by the Joint Venture and will employ independent consultants to assess the future exploration potential of the 30 square mile Sleeper Gold Property

The current overview of the Sleeper Gold Project which is held by the management of X-Cal Resources is expressed in the 2005 X-Cal Annual Report and related NI-43-101 reports which are available on SEDAR and the Company website: www.x-cal.com.

Mill Creek Property

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

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

On June 29, 2005 the Company announced that it had entered into an option agreement with Placer Dome U.S. Inc., which gives Placer a short-fused option to purchase the Company's Mill

Creek Gold property. X-Cal will retain a production royalty and will be carried to production, if the option is exercised by Placer.

Under the terms of the agreement Placer has until January 16, 2006 to determine if they will pay \$US 5,000,000 for the Mill Creek Gold property. A non-refundable signing fee of \$US 50,000 was paid to the Company by Placer to initiate the agreement.

Placer has the right to drill during the option period and will drill under X-Cal's current "Notice of Intent" type of permit. The minimum drill test footage total that will be carried out during the option is 5000 ft. Additional footage during the time frame is possible, but limited under the current permit.

Two holes have been drilled, one in the southwest corner of the property to a depth of approximately 2,500 ft., where it was terminated due to ground conditions. The second hole, drilled to a depth of 1,600 ft northeast of the deeper test, was also terminated due to ground conditions. The Company has yet to receive drill logs or geochemistry from the initial testing by Placer Dome.

The Company's geologic team had concluded that a drill program of 29 holes is required to test the targets and detailed these proposed targets in a news release dated July 11, 2005. Most of the remaining acreage available for drill sites will most likely be used up by Placer with the current permits. Due to this limited availability of drill sites under current permits, the Company's analysis is that the results of the pending 2005 drilling by Placer Dome will either be sufficient to justify exercise of their option, or inconclusive.

The Plan of Operations application which will allow for comprehensive drill testing at Mill Creek in 2006 has been filed. The outcome and amount of bonding, if the permit process is successful, is not known at this time.

Press releases dated June 29, July 11, and August 12, 2005 provide an overview on the option, proposed drilling and variables at Mill Creek. A NI 43-101 technical report on the Mill Creek Gold Property is available on the company website and on SEDAR and provides a comprehensive view of this early stage project.

Reese River Property

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

Snowbird Property

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

Results of Operations

The following table summarizes selected financial data from the Company's unaudited quarterly financial information for the six months September 30, 2005 and 2004.

	2005	2004
Total revenue excluding foreign exchange	\$ 56,958	\$ 92,622
Net loss for the period	\$ 326,368	\$ 558,961
Loss per share	\$ 0.004	\$ 0.007
Cash and cash equivalents	\$ 2,272,085	\$ 6,003,696
Total assets	\$ 22,507,031	\$ 23,033,057
Total liabilities	\$ 765,711	\$ 965,379
Total shareholders' equity	\$ 21,741,321	\$ 22,067,678
Cash dividends per share	\$ Nil	\$ Nil

Included in these unaudited consolidated financial statements for 2005 is the Company's 50% share of the net assets and income and expenses of the Sleeper Gold LLC ("NSG LLC") as at and for the period from inception to September 30, 2005. Please refer to Note 3(a) of the "Notes to the Consolidated Financial Statements" for September 30, 2005 for a detailed listing of the NSG LLC's net assets, income and expenses incorporated into X-Cal's unaudited consolidated financial statements.

During the six months ended September 30, 2005, the Company recorded a net loss of \$326,368 or \$0.004 per common share (2004: \$558,961 or \$0.007 per common share).

Interest income earned in the six month period ended September 30, 2005 from cash and short-term monetary investments was \$56,958, (2004 – \$92,622) of which \$29,378 is attributable to X-Cal's 50% share of the NSG LLC joint venture. The remaining \$27,580, was generated from X-Cal's cash on hand. This decrease was due to lower cash balances on hand throughout the quarter in 2005 compared to 2004.

The following table outlines general and administrative expenditures attributable directly to the Company and those attributable to the Sleeper Joint Venture from the unaudited quarterly financial information for the six months ended September 30, 2005 and 2004.

Six months ended September 30,	2005			2004		
	X-Cal Resources Ltd.	Sleeper Joint Venture	Total	X-Cal Resourc es Ltd.	Sleeper Joint Venture	Total
	\$	\$	\$	\$	\$	\$
Accounting & Audit	6,498	31,467	37,965	64,397	8,041	72,438
Amortization	14,490		14,490	13,988	12,573	26,561
Investor Relations	6,470	14,490	24,371	35,005	40,677	75,682
Insurance		104,093	104,093		68,388	68,388
Shareholder communication	44,816		44,816	24,407		24,407
Legal	17,793	11,711	29,504	24,314		24,314
Office & other	42,796	19,329	62,125	54,100	28,037	82,137
Rent	13,419	10,784	24,203	19,594	11,203	30,797
Salaries & consultants & contractors	87,282	46,378	133,660	100,491	80,189	180,680
Regulatory fees	25,042		25,042	25,639		25,639
Travel	12,958	4,429	17,387	55,466	8,711	64,177
	\$296,533	\$221,123	\$517,656	\$417,401	\$257,819	\$675,220

General and administrative expenses in 2005 for the six months ended September 30, 2005 were \$517,656 (2004 - \$675,200). While the company recorded an overall decrease in costs due primarily to the now established operations of the joint venture, it did see an increase in insurance costs related to the joint venture.

For the six months ended September 30, 2005, X-Cal recorded an unrealized foreign exchange loss of \$122,114 (2004 – gain of \$39,806). This loss was generated by the downward fluctuation of the US dollar during the period.

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

2006	1st QTR	2nd QTR			TOTAL
Interest Income	\$33,326	\$23,632			\$56,958
Net Loss	\$234,993	\$91,365			\$326,368
Loss per share*	\$0.003	\$0.001			\$0.004

2005	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$45,099	\$47,523	\$82,837	\$3,267	\$178,726
Net loss	\$48,972	\$558,961	\$641,670	\$538,939	\$1,788,542
Loss per share*	\$0.001	\$0.006	\$0.009	\$0.007	\$0.02

2004	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$7,540	\$5,666	\$5,136	\$49,696	\$68,038
Net Loss	\$340,570	\$145,142	\$555,563	\$691,382	\$1,732,657
Loss per share*	\$0.05	\$0.002	\$0.01	\$0.005	\$0.03

*Basic and diluted

Liquidity and Capital Resources

As at September 30, 2005, the Company had cash and short-term investments of \$2,272,085 (2004 –\$6,031,031) of which \$172,331 (2004 - \$2,330,049) is the Company's 50% share of the Sleeper Joint Venture cash balances. At September 30, 2005 the Company held \$2,097,577 in cash, guaranteed investment certificates and/or term deposits with the Bank of Montreal the Company holds an additional \$2,177 in marketable securities.

As at September 30, 2005, the Company had a working capital balance of \$2,014,217 (2004 – \$5,480,861). Of this amount \$67,613 is attributable to the Sleeper Joint Venture, leaving a working capital balance of \$1,946,604 to fund the Company's cash calls for the joint venture, independent exploration activities and general operating expenses. The decrease in working capital reflects continued expenditures in mineral exploration and a decrease in financing activities by the Company in 2005 and 2004.

In 2005 the Company issued no common shares (2004 - Nil) in private placements and therefore received \$ Nil in proceeds; no common shares were issued for the exercise of options (2004 – 50,000) so the Company received no proceeds in 2005 (2004 – \$29,244); and the Company had no shares issued for the exercise of warrants and accordingly received no proceeds (2004 – 1,025,000 for proceeds of \$307,500).

Contractual property acquisition and holding costs for 2005 were Nil (2004 – \$Nil). In January 2004, the Sleeper Joint Venture was formed and future advance royalty payments due under the Sleeper Gold project are to be paid by the joint venture.

Exploration and property costs in 2005 were \$1,536,545 (2004 – \$4,050,515). Of that amount \$1,362,636 (2004 – \$2,263,559) was incurred on the Sleeper Gold property and funded by the Sleeper Joint Venture and \$149,096 (2004 – \$2,263,559) on the Mill Creek Property funded entirely by the Company. The Company has incurred nominal expenses on this property and has received \$61,575 as an option fee from Placer Dome's option on the Mill Creek Property (see Mill Creek Property contained in this document). The Company further incurred \$24,813 (2004 – Nil) on the newly optioned Reese River Property. Under the option the Company has committed to expending a minimum of US \$200,000 in exploration activities on the property.

Commitments

Office Lease

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

Management Agreements

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

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

Related Party Transactions

For the six months ended September 30, 2005, the Company paid legal fees of \$6,306 (2004 - \$6,667), to a law firm in which a director of the Company is a partner. The Company also paid \$6,000 (2004 – \$6,000) in consulting fees to another director of the Company. In 2005, the Company instituted a policy of paying \$3000 per annum to its outside directors with an additional payment of \$2,000 per annum for those members who participate in its committees. During the six months ended September 30, 2005, the Company has not yet paid the annual fees of \$13,000 (2004 – Nil,) under this new policy.

Critical Accounting Estimates and Significant Accounting Policies

For a detailed summary of the Company's significant accounting policies, the reader is directed to Note 2 of the Notes to the Interim Consolidated Financial Statements, September 30, 2005 and audited Consolidated Financial Statements March 31, 2005 and 2004, available on SEDAR www.sedar.com

Principals of Consolidation

The consolidated financial statements and information contained therein include the accounts of the Company and X-Cal U.S.A. Inc., its wholly-owned subsidiary. The Company's interest in the

Sleeper Joint Venture, through which it carries on its principal mineral exploration activities, is accounted for using the proportionate consolidation method.

Mineral Properties

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

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

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

Reclamation and environmental costs

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

Effective April 1, 2004 the Company adopted the new standards for accounting for reclamation and environmental obligations as set out in CICA Handbook Section 3110. Those standards require that the fair value of the Company's reclamation and environmental obligations be recognized in the financial statements as a liability in the period in which the obligation is assumed on acquisition or is incurred in exploration of properties. The fair value of the liability is initially recorded at the discounted value of expected future cash outlays to satisfy the obligations, with a corresponding increase to mineral property interests. The liability is adjusted at the end of each period to reflect changes in the present value of the estimated future cash outlays underlying the obligation. The Company records that increase in the carrying amount of the obligation as accretion expense.

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

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

Stock-Based Compensation

The Company follows the recommendations of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based

payments made in exchange for goods and services. The standard requires that all stock-based awards be measured and recognized using a fair value based method.

Financial Instruments

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

Outlook

Exploration Expenditures

The gold production industry has consolidated and continues to face the need for reserve replacement, as predicted in previous annual reports. The Company has assembled and documented the Sleeper Gold Project over a period of years beginning with the first land acquisitions in the area in December 1993. The Sleeper Joint Venture (50% X-Cal/50% New Sleeper Gold Corporation) under the direction of New Sleeper as operator has yet to make the break through discovery that shareholders have been anticipating for this project. The Sleeper Joint Venture is utilizing a team to carry out exploration work at Sleeper which has resulted in a large volume of new data which can be used to target future work. The team has reported positively on the potential of this property and is compiling data to prioritize drill targets. The Sleeper Joint Venture had \$US3.3 million of exploration funds at the beginning of the year. The Company has begun to contribute 50% of the exploration funds for the project and has received four cash calls totaling US \$287,500 up to and including November 01, 2005.

The total contribution by the Company for the balance of 2005 is not expected to exceed \$US 1,000,000 which the Company has budgeted for its anticipated contribution and has the funds on hand. The program of exploration at Sleeper for the balance of the year, through December will include up to 2,440 meters of RC drilling on several targets.

The Mill Creek Property is located in the Cortez Joint Venture Area of Nevada where Placer Dome Inc. has announced new discoveries. The general area is now the subject of increased exploration activity by several major and junior companies. During the period the Company announced that it has entered into an option agreement with Placer Dome U.S. Inc., which gives Placer a short-fused option to purchase the Company's Mill Creek Gold property. The Company will retain a production royalty and will be carried to production if the option is exercised by Placer.

Under the terms of the agreement Placer has until January 16, 2006 to determine if they will pay \$US 5,000,000 for the Mill Creek property. A non-refundable signing fee of \$US 50,000 was paid to the Company by Placer to initiate the agreement.

As part of forward planning for the Mill Creek Property, X-Cal has begun an application for a Plan of Operations type of permit, which will allow for comprehensive drill testing at Mill Creek in 2006. The permitting process is expected to take 6 months. If the Plan of Operations Permit application is successful, it could facilitate uninterrupted exploration either by Placer Dome or by the Company during 2006.

A detailed Reese River agreement with the Company and Placer Dome is being negotiated at this time. The work program for the project will be agreed upon based on recommendations of a technical team composed of both Placer Dome and the Company's personnel.

Potential for Corporate Developments

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

Risks and Uncertainties

Risks related to the Mining Exploration Industry Generally

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

Risk associated with mineral tenure rights

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

Uninsured Risks

The Company maintains insurance to protect it against certain risks related to its current operations in amounts that it believes are reasonable depending upon the circumstances surrounding each identified risk. The Company may elect, however, not to insure against certain risks due to high premiums or for various other reasons. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions, fire, flooding and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise there could result increasing costs and a decline in the value of the Company's securities.

Competition

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

Management

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

Requirement for Further Financing

The Company is dependent upon equity financing to continue to fund its exploration activities and general operations. The Company believes that the current funds on hand should be sufficient to finance its operations and capital needs until the end of calendar year 2005. However, the Company's funding needs may vary depending upon results obtained from current exploration activities. The Company's ability to raise future capital will be in part affected by capital markets and market prices for gold. There is no assurance that such additional financing will be available.

Outstanding share data as at September 30, 2005

The Company has unlimited share capital of common shares of no par value. Of this, the Company has 76,135,255 shares outstanding or 84,450,255 shares on a fully diluted basis.

There are 5,065,000 stock options outstanding under the Company's incentive stock option plan with exercise prices ranging from \$0.45 - \$0.81 with expiry dates ranging to December 13, 2009.

There are a total of 3,250,000 warrants outstanding with a conversion price of \$0.72 per share that will expire December 15, 2005.

If the Company were to issue all 8,315,000 shares issuable upon conversion of all warrants and exercise of all incentive stock options outstanding, it would raise approximately \$5,586,500.

Items Subsequent to Year-End

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