

MANAGEMENT DISCUSSION AND ANALYSIS

(for the Nine months ended December 31, 2007)

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 December 31, 2007 with those of the corresponding quarter of 2006. It is also an update to the Company's annual MD&A for the year ended March 31, 2007 and should be read in conjunction with the audited and unaudited Consolidated Financial Statements and related notes for all relevant periods, copies of which are filed 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 February 1, 2008.

All references to "2007" refer to the nine months ended December 31, 2007, and all references to "2006" refer to the nine months ended December 31, 2006, 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 Gold, Mill Creek, and WR Spring Valley properties in Nevada, USA. Under the terms of an agreement with Placer Dome US (a subsidiary of Barrick Gold) the Company has acquired a fourth Nevada gold property, the Reese River Pediment project.

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.

The gold industry must replace its reserves regularly. 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 its gold properties. Management, directors and consultants are applying their combined experience and expertise to exploration of the Company's Nevada gold properties.

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

The potential profitability of the Sleeper, Mill Creek, Reese River and WR Spring Valley Area 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 of 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 Property

Note: All references to years, 2007 – 2006 – 2005, refer to work programs carried out within the calendar year.

The Sleeper Gold Property includes a historic open pit mine operated by AMAX Gold from 1986 until 1996, which produced 1.66 million ounces of gold and 2.3 million ounces of silver. The property has been the subject of several exploration programs. These programs have produced an extensive database for current exploration targeting and continuing studies.

The Sleeper Gold Project is a 30 square mile gold district located in Humboldt County, Nevada. A 50% interest in the Sleeper Gold Project was acquired by New Sleeper Gold Corporation, a publicly traded reporting issuer, in return for providing initial funding to the New Sleeper Gold LLC joint venture (the "Sleeper Joint Venture") (50% X-Cal/50% New Sleeper Gold Corporation). A National Instrument 43-101-compliant technical report was submitted by each party. The technical reports are available on SEDAR at www.sedar.com.

The Company contributed its interest in the Sleeper Gold Project to the Sleeper Joint Venture and New Sleeper Gold Corporation capitalized the Sleeper Joint Venture with US \$20,000,000. The Sleeper Joint Venture company treasury was independent of both companies and was managed on behalf of the Sleeper Joint Venture by New Sleeper Gold Corporation.

X-Cal acquired the 50% interest from New Sleeper Gold Corporation (now Reunion Gold Corporation) in the Sleeper Joint Venture on May 16, 2006. The Company paid \$5,000,000 CDN and delivered 10 million common shares at a deemed value of \$0.32 per share (\$3,200,000), with resale restrictions attached. The Company now owns 100% of New Sleeper Gold LLC.

Title of the York Leased Lands, which are part of the Sleeper Gold Project, has been signed over to X-Cal concurrent with a buy out agreement between the Company and York Mines. The buyout was initiated with a payment to York Mines consisting of US \$150,000 and 50,000 common shares. To complete the buyout, a further US \$600,000 and 200,000 common shares of X-Cal was required. Payment can be made as four equal payments over four years, or accelerated at the Company's discretion. At the date of this report, the remaining balance to complete this buyout is \$450,000 and 150,000 common shares of X-Cal.

The exploration program for the years 2004 through early 2006 included drilling of 82,240 feet of core and reverse circulation drilling in 2004, and 22,524 feet of core and reverse circulation drilling in 2005. Extensive exploration targeting studies and surveys were initiated and substantially completed late in the two year program. The results of the studies established a better definition of exploration targets.

The Company assembled a panel of professionals to review the Sleeper Gold Project and to make recommendations for ongoing work. Two of the independent panel members, Dr. Richard

Sillitoe and Dr. Jeffrey Hedenquist, provided the Company with their expert views in the form of: "Observations on the Sleeper Gold Project, Nevada" by Dr. Jeffrey Hedenquist (December, 2005) and a separate paper "Exploration Potential of the Sleeper Project, Nevada" by Dr. Richard H. Sillitoe (January, 2006). These papers are not NI-43-101 reports and should be considered a supplement to NI-43-101 documents for the project.

A detailed NI-43-101 Technical Report (March 2006) authored by Robert E. Thomason, M.Sc., L.Geo. and co-authored by Larry Kornze, B.Sc.,P.E. and Winthrop A. Rowe, M.Sc.,C.P.G. reviewed all previous work on the property. The report established the basis for determination of drill target areas.

Both Dr. Sillitoe's report and the NI-43-101 Technical Report (March 2006) were filed on SEDAR. Dr. Jeffrey Hedenquist's report was not filed on SEDAR but can be found in its entirety at the Company's website www.x-cal.com.

A combination of definition and exploration drilling is ongoing at Sleeper.

From August 2006 to November 2006 ten reverse-circulation (RC) drill holes totaling 10,805 feet were completed in the Range Front Target. This is a structural zone that is +3 miles in length, located parallel and to the east of the Sleeper Mine Site.

In December 2006 drilling moved to the Facilities area. This is a mineralized zone east of the previously mined pit under the now reclaimed AMAX mill and crusher location. During 2006 two RC holes were completed for 1,460 feet and two core holes were drilled totaling 1,405 feet.

From January to the end of March 2007 twenty-one RC holes totaling 12,865 feet and two core holes totaling 1,330 feet were completed in the Facilities Area. From the end of March 2007 to the end of June 2007, twenty-seven RC holes totaling 17,165 feet and 5 core holes totaling 2,768 feet were completed in the Facilities Area.

A recent break-through in geologic understanding has significant implications for the modeling of and possible future mining of the Facilities Area. Detailed examination of core indicates a low-angle stratigraphic unit that appears to control mineralization. This was not recognized previously in the reverse-circulation (chip type) drilling. Gold and silver values can be placed within the stratigraphic layer on repeated assay data cross-sections. The strata can be projected east, up-dip to the range front break and located there on the surface. The western projection passes underneath the mine pit, through significant areas of no data. Geologic cross-sections that reflect the revised Sleeper Geology are being submitted to Mine Development Associates as framework for the pending resource calculations.

There is much work to be done, but the tonnage and low strip ratio implications for the Facilities Area are encouraging. Other target areas may be re-drilled in light of the new interpretation. Readers are further encouraged to view the Company's news releases which include plan maps and assay results available on the X-Cal Resources Ltd. website at www.x-cal.com and on the SEDAR website at www.sedar.com.

The West Wood Breccia area is a zone of hydrothermal brecciation and veining located immediately southwest of the main open pit at the Sleeper Mine. Previous work outlined a mineralized area approximately 800 feet (250 meters) long and 320 feet (100 meters) wide. Earlier high-grade intercepts at West Wood can be reviewed in the NI-43-101 Technical Report for the property available at www.x-cal.com or on SEDAR. Highlight assays are contained in the 2007 X-Cal Annual Report. At West Wood drilling is in-filling the zone of mineralization and expanding it, both to the south and west. From January to the end of March 2007 two core holes totaling 1,691 feet and one RC for 1,560 feet were completed. From the end of March 2007 to

the end of June 2007 two RC holes totaling 2,621 feet and 4 core holes totaling 4,352 feet were completed in the West Wood Breccia Area.

An indication of a possible deeper zone located directly underneath the known high-grade mineralization will also continue to be tested (see March 8, 2007 press release).

The NW target is located north-west of the pit, approximately 1,500 meters north of West Wood. It is one of the areas where exploration with the objective of a breakthrough new discovery is in progress. The January 2006 paper "Exploration Potential of the Sleeper Project" by Dr. Richard Sillitoe describes this and five other priority exploration targets.

Current drilling in the NW area has encountered a silicified sulphide breccia. In the period from January to the end of March 2007 four core holes totaling 4,228 feet were completed in the NW area. From a geological perspective the hydrothermal alteration is apparent and encouraging. Drill testing of this area will continue.

X-Cal is preparing a bulk sample from the above ground heap materials for column leach tests, as part of the overall program for the mineralization located east of the mine site in the Heaps and Facilities areas.

An access road was completed onto Heap Leach Pads #1 and #2. Samples from trenches were submitted for independent metallurgical testing. In autumn 2007 a sonic drill program gathered an addition of 20,000 lbs of material from Pads #1, 2, 3 & 4. The results of these programs are being compared with earlier work on the heap pads. Previous studies which were not NI-43-101 qualified indicated that a substantial amount of recoverable gold and silver may be present above ground in these pads. The results of ongoing work are encouraging, to date. Kappes Cassiday Associates (KCA) and Mine Development Associates (MDA) will be asked to estimate potentially recoverable amounts of gold and silver from this area as part of resource estimates, which are pending.

A goal of current work is to determine if Facilities Area gold and silver mineralization and the mineralization in the Heap Pads at Sleeper can be blended as the basis of renewed heap leaching operations at Sleeper. Resource calculations and metallurgical tests aimed at providing independently verified answers to these questions are part of ongoing work.

The mine scale exploration targets described by Sillitoe will be tested in series (NW, then SW, etc). The program is operating efficiently and can be accelerated.

Drilling, engineering and report preparation should continue throughout 2008 with the goals of defining base resource for the project and making a new breakthrough exploration discovery.

The Company has completed the sale of a 1% Net Smelter Production Royalty on the Sleeper Gold Property to the Ken Snyder Gold Syndicate for US \$1,500,000.

Future Exploration

Exploration priorities for the Sleeper Gold Property are expected to focus on five priority mine scale targets located near the Sleeper Mine. All five of the priority targets occur along three structural corridors parallel to the Sleeper Mine historic mineralization. None of the five targets have been adequately tested in prior drill programs. Current and ongoing three-dimensional modeling of geochemical data, additional geophysical interpretations and refinements and detailed compilation on Gemcom and Gocad will help set drilling priorities. However, the targets are well defined at present. Drill testing is to involve angled drill hole fences with overlap at bedrock depths. Drill orientation of these current targets is to be east-west to optimize crossing of key structural trends. Each target should have 2 to 4 drill fences to test the target concepts.

The Company is committed to the success of the Sleeper Gold Project. We see the potential of the Sleeper Gold District for new economic discoveries as described in Dr. Sillitoe's paper. A realistic exploration budget to address the targets in Dr. Sillitoe's paper with the objective of break-through discovery is estimated at US \$15 million. The minimum next phase budget is estimated at US \$1.5 million. (See Outlook – Exploration Expenditures below).

Mill Creek/Goat Window Gold 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 Gold 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 Gold Property.

Richard Redfern, M.Sc., a qualified person as defined by NI-43-101, has provided the Company with a NI-43-101 Technical Report on 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 this early stage gold project which is available on the SEDAR website www.sedar.com and the Company's website www.x-cal.com.

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. The permit will facilitate the testing of the targets described in the technical report. X-Cal will consider joint venture partners for funding of continued work on this property.

Reese River/Horse Mountain Window Property

The Company entered into a formal agreement with Placer Dome US (a subsidiary of Barrick Gold) to jointly explore three claim blocks totaling 3,000 acres in the Reese River Pediment, Lander County, Nevada. Title of the claims was transferred from Placer Dome to the Company. The Company agreed to carry out and fully fund a minimum US \$200,000 drilling program, developed by both parties, within Year One but prior to December 16, 2006. This deadline was extended, by Placer Dome, to March 16, 2007. Under the terms of the agreement, Placer Dome was granted 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. X-Cal's expenditures for the above work exceed the minimum required, and within the time allotted, under the agreement. Placer Dome did not make the election to go forward under the agreement and therefore, has forfeited the right to acquire a 51% interest in the property. Placer Dome's interest has now reverted to a 2% net smelter return royalty.

A NI-43-101 Technical Report Titled "A Technical Report on the Reese River/Horse Mountain Project, November 14, 2006" was completed and filed.

During 2006 a gravity survey was completed and a total of 64 new gravity stations were surveyed. The gravity survey indicates a complex structural setting composed of three major structural zones. Geologic mapping supports the zones with correlating mapped faults and major lithologic boundaries. An up-thrown block is interpreted at the zones' intersection with the associated gravity high being potentially the result of lower plate carbonates. The structures and the lower plate are both exploration targets.

A core hole was completed to a depth of 1915 feet in December 2006. Results from this drilling are currently being reviewed and compiled to aid in continued evaluation of the property.

Drill permits and bonding are in place.

Spring Valley Area (WR Claims)

X-Cal has staked thirty-eight lode mineral claims in the Spring Valley Area, Pershing County, Nevada. Dr. Ken Snyder provided land research to the Company which facilitated the staking. Dr. Snyder will retain in a 1% Net Smelter Return interest in the claims.

SUMMARY

The Sleeper Gold Project is the primary focus of the Company.

The Mill Creek (Goat Window) and the Reese River (Horse Mountain Window) Gold Projects are both well located and documented projects situated over favorable lower plate windows in the Cortez Area of Nevada. X-Cal will seek joint venture partners for these properties.

The WR Spring Valley Project is a grass roots exploration project.

Results of Operations

X-Cal is in the business of exploring for, and where warranted, developing gold property interests. The Company has no producing properties and consequently no sales or revenues.

The following table summarizes selected financial data from the Company's financial information for the periods ended December 31, 2007 and 2006.

		9 months Ended December 31, 2007		9 months Ended December 31, 2006
Total revenue excluding foreign exchange	\$	1,707,092	\$	112,936
Net income (loss) for the period	\$	597,708	\$	(1,613,546)
Income (loss) per share	\$	0.005	\$	(0.014)
Cash and term deposits	\$	188,166	\$	1,867,650
Total assets	\$	36,353,811	\$	34,848,859
Total liabilities	\$	1,142,609	\$	1,329,788
Total shareholders' equity	\$	35,211,202	\$	33,519,071
Cash dividends per share	\$	Nil	\$	Nil

During the 9 months ended December 31, 2007, the Company recorded net income of \$597,708 or \$0.005 per common share (2006 – loss \$1,613,546 or \$0.014 per common share). This net income includes the sale of a 1% Net Smelter Production Royalty on the Sleeper Gold Property to Dr. Snyder's Gold Syndicate for US \$1,500,000.

Interest income earned during the 9 months ended December 31, 2007 was \$91,352 (2006 – \$89,219).

During the 9 months ended December 31, 2007, the Company and Omineca Gold Ltd. reached an agreement for Omineca to deliver a new core drill and related equipment to the Sleeper Gold Property, located in Nevada and also make a private placement into the Company in return for common shares at \$0.35 per share. The estimated value of the drill and related equipment is \$350,000. Omineca's private placement into the Company was \$150,000. The total transaction was valued at \$500,000 in return for 1,428,571 common shares of the Company. A principal of Omineca is also a Company insider.

Also during the same 9 month period, the drill was subsequently sold for \$350,000 on a vendor take back arrangement with a term of 15 months and an 8% interest rate. Total interest and principal payments expected after 15 months is \$368,342. X-Cal retains a 2 year "first-call" on the drill which will be operated by Black Hawk Drilling Inc. for X-Cal.

The following table outlines general and administrative expenditures attributable directly to the Company and not capitalized in any property for the 9 months ended December 31, 2007 and 2006.

	9 Months Ended	
	December 30 2007	December 31 2006
Accounting and audit	\$ 28,650	\$ 92,278
Amortization	18,150	18,862
Equipment commissioning & testing	50,000	-
Insurance	216,412	51,876
Investor relations	57,490	81,695
Legal	43,933	102,910
Office and other	24,649	44,121
Regulatory fees	31,518	67,308
Rent	30,928	33,136
Salaries, consultants' & directors' fees	100,480	530,646
Shareholder communications	76,276	82,958
Stock-based compensation	211,857	454,459
Telecommunications	2,135	27,172
Travel	87,823	123,690
	<u>980,302</u>	<u>1,711,111</u>

General and administrative expenses for the 9 months ended December 31, 2007 were \$980,302 (2006 - \$1,711,111). The Company recorded an overall decrease in costs due to a decrease in accounting and legal expenses as well as uncapitalized salaries, consultants' and directors' fees and stock based compensation. The increase in insurance expense is due to the amortization of the prepaid insurance policy which was not recorded in the same period of the previous year. The increase in equipment commissioning and testing is in relation to the drill now being operated by Black Hawk Drilling Inc.

For the 9 months ended December 31, 2007, X-Cal recorded income per share of \$0.005 (2006 – loss of \$0.014 per share) based on a weighted average number of shares outstanding of 124,829,728 (2006 – 114,316,036). Actual shares outstanding as at December 31, 2007 were 125,163,826 (2006 – 123,685,255) representing income per share of \$0.005 (2006 – loss per share of \$0.013).

For the three months ended December 31, 2007, X-Cal recorded an unrealized foreign exchange loss of \$3,700 (2006 – gain \$109,721).

Other differences between the amounts incurred in 2007 and 2006 reflect normal variances in business activities from year to year.

Summary of Quarterly Results

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

2008	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$43,455	\$39,012	\$8,884		
Net income (loss)	\$1,135,359	(\$244,358)	(\$293,293)		
Income (loss) per share	\$0.009	(\$0.002)	(\$0.002)		
2007	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$10,792	\$32,016	\$47,466	148,449	238,723
Net income (loss)	(\$1,111,831)	(\$261,889)	(\$239,827)	(\$523,772)	(\$2,137,319)
Income (loss) per share	(\$0.013)	(\$0.002)	(\$0.002)	(\$0.003)	(\$0.02)
2006	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$33,326	\$23,632	\$35,143	\$15,038	\$107,139
Net income (loss)	(\$234,993)	(\$379,324)	(\$278,389)	(\$638,366)	(\$1,531,072)
Income (loss) per share	(\$0.003)	(\$0.005)	(\$0.004)	(\$0.008)	(\$0.02)
2005	1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
Interest Income	\$45,099	\$47,523	\$82,837	\$3,267	\$178,726
Net income (loss)	(\$48,972)	(\$558,961)	(\$641,670)	(\$538,939)	(\$1,788,542)
Income (loss) per share	(\$0.001)	(\$0.007)	(\$0.008)	(\$0.007)	(\$0.02)

While the information set out in the foregoing table is mandated by National Instrument 51-102, it is management's view that the variations in financial results that occur from quarter to quarter are not particularly helpful in analyzing the Company's performance. It is in the nature of the business of junior exploration companies that unless they sell a mineral interest for a sum greater than the costs incurred in acquiring such interest, they have no significant net sales or total revenue. Because the majority of our expenditures consist of exploration costs that are capitalized, our quarterly losses usually result from costs that are of a general and administrative nature.

Significant variances in the Company's reported loss from quarter to quarter most commonly arise from three factors that are difficult to anticipate in advance or to predict from past results: (i) decisions to write off deferred exploration costs when management concludes that there has been an impairment in the carrying value of a mineral property, or the property is abandoned, (ii) the granting of incentive stock options, which results in the recording of amounts for stock-based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given quarter, and (iii) increased costs directly related to financing activities of the Company.

Liquidity and Capital Resources

As at December 31, 2007, the Company had cash and short-term investments of \$188,166 (2006 - \$1,867,650).

As at December 31, 2007, the Company had a working capital balance of \$373,912 (2006 - \$1,560,327). The decrease in working capital reflects the increase in expenditures in mineral exploration.

During the 9 months ended December 31, 2007 the Company issued 428,571 common shares for gross proceeds of \$150,000 (2006 - 37,500,000 shares for \$10,640,000) in private placements, issued an additional 50,000 shares at a deemed value of \$13,500 for property acquisition purposes (2006 - 10,500,000 shares for a deemed value of \$3,213,500), and issued an additional 1,000,000 shares at a deemed value of \$350,000 for equipment acquisition purposes (2006 - Nil); no common shares were issued for the exercise of options (2006 - Nil) so the Company received no proceeds in 2007 (2006 - Nil); and the Company had no shares issued for the exercise of warrants and accordingly received no proceeds (2006 - Nil).

Exploration and property costs during the 9 months ended December 31, 2007 were \$3,050,893 (2006 - \$2,641,907). Of that amount \$2,990,903 (2006 - \$2,247,341) was incurred on the Sleeper Gold property. Additionally, \$18,675 (2006 - \$40,369) was spent on the Mill Creek Property. The Company further incurred \$35,554 (2006 - \$339,713) on the Reese River Property. Additionally, the Company incurred \$5,761 for the WR, Spring Valley Area Claims (2006 - \$14,484).

Commitments

Office Lease

The Company leases office space in Vancouver and Nevada. The lease agreement for office space in Vancouver expires in July 2009 and requires the Company to pay \$25,632 annually as its share of base rent plus operating costs. The lease agreement for office space in Nevada expires in November 2008 and requires the Company to pay \$18,000 annually as its share of base rent.

Management Agreements

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

The Company has an employment contract with its President. Under the terms of that contract, remuneration is reviewable on October 1st of each year, when such remuneration may be increased, but not decreased. The remuneration for the President is \$160,000 per annum. Additionally, the contract provides that, in the event of termination by the Company, the President shall receive three times the annual amount of salary in the year of termination plus US \$150,000.

The Company entered into an employment contract with an officer of the Company effective April 1, 2007 whereby it will pay the officer \$66,000 per annum. Under the terms of that 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.

Net Smelter Production Royalty

The Ken Snyder Gold Syndicate holds a 1% Net Smelter Production Royalty on the Sleeper Gold Property. Dr. Snyder retains 1% NRS on the WR claims in the Spring Valley Area (this royalty is separate and unrelated to the syndicate which has 1% NSR at Sleeper).

Related Party Transactions

The Company paid legal fees and expenses of \$23,652 (2006 - \$25,490) to a law firm in which a director of the Company is a partner.

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

Critical Accounting Estimates and Significant Accounting Policies

For a detailed summary of the Company's significant accounting policies, the reader is directed to Note 2 of the Notes to the Consolidated Financial Statements, September 30, 2007 and 2006, available on SEDAR @ www.sedar.com.

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.

Mineral Properties

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

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

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

Reclamation and Environmental Costs

The Company is subject to the laws and regulations relating to environmental matters in jurisdictions in which it operates, including those relating to property reclamation, discharge of

hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its existing properties and properties in which it previously had an interest.

The Company recognizes the fair value of its reclamation and environmental obligations 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.

Stock-Based Compensation

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

Financial Instruments

The Company has various financial instruments including cash, deposits, receivables, and payables and accruals. The carrying value of all financial instruments approximates their fair values.

(a) Fair value

The carrying values of cash and term deposits, receivables, and accounts payables and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The reclamation bond approximates its fair value as it earns interest at market rates.

(b) Interest rate risk

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

(c) 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.

(d) Derivatives

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they relate are not sufficiently developed to reasonably determine value.

Change in Accounting Policies

Effective April 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. As permitted by the new standards, these have been adopted on a prospective basis with no restatement to prior period financial statements.

- Comprehensive Income - Section 1530 (See Note 3 of the financial statements for details of this policy)
- Financial Instruments - Section 3855 (See Note 3 of the financial statements for details of this policy)
- Hedging - Section 3865 (See Note 3 of the financial statements for details of this policy)

Outlook

Exploration Expenditures

The gold production industry continues to face the need for reserve replacement. 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, New Sleeper Gold LLC (50% X-Cal/50% New Sleeper Gold Corporation) generated a large volume of new data which has been incorporated into the overall picture at Sleeper.

X-Cal successfully acquired the 50% interest that New Sleeper Gold Corporation held in the Sleeper Joint Venture. The Company is now solely responsible for continued exploration of the property and has assembled an experienced team of professionals to carry on current exploration programs as recommended in the NI-43-101 Technical Report (March 2006). The Company budgeted \$1.3 million for implementation of its exploration program. The Company is continuing to seek to raise additional financing to fund the recommendations in the NI-43-101 Technical Report (March 2006).

The Mill Creek Gold 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.

As part of forward planning for the Mill Creek Property, X-Cal has received approval of a Plan of Operations permit, which will allow for comprehensive drill testing of the property. The Plan of Operations will facilitate continued exploration in the future.

The Reese River agreement between the Company and Placer Dome US (a subsidiary of Barrick Gold) allows for work programs that are based on recommendations of a technical team composed of both Placer Dome and the Company's personnel. The December 16, 2006 deadline for the Company's commitment to fund a US \$200,000 drilling program was extended, by Placer Dome, to March 16, 2007. X-Cal exceeded the required minimum in the agreement within the time frame and notified Placer Dome that the expenditures have been made. Placer Dome's interest has now reverted to a 2% net returns royalty.

X-Cal has staked thirty-eight lode mineral claims in the Spring Valley Area, Pershing County, Nevada. Dr. Ken Snyder provided land research to the Company which facilitated the staking. Dr. Snyder will retain in a 1% Net Smelter Return interest in the claims.

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. The company currently has several active data sharing agreements in place, as per the above mentioned objectives.

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 number of consultants and others for operating expertise. 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 requires new capital to finance its operations and capital needs until the end of fiscal year 2008. In December of 2007 the Company entered into a financing agreement with IBK Capital Corporation to assist with the private placement of up to \$2 million of treasury shares. 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 December 31, 2007

The Company has unlimited share capital of common shares of no par value. Of this, the Company had 125,163,826 shares outstanding as of December 31, 2007 or 135,113,826 shares on a fully diluted basis. As at the date hereof, the total number of shares outstanding is 127,763,823 due to an additional 2,599,997 issued in a private placement after the period end.

Date	Type	No. of shares	Deemed or Issue Price per share	Gross Proceeds to Company
March 31, 2007	Opening balance	123,685,255		
June 1, 2007	Private Placement	428,571	\$0.35	\$150,000
June 1, 2007	Equipment Acquisition	1,000,000	\$0.35	\$350,000 ⁽¹⁾
June 29, 2007	Property Acquisition	50,000	\$0.27	\$13,500 ⁽¹⁾
December 31, 2007	Total	125,163,826		

(1) deemed value, no cash received by the Company.

The Company had 665,000 stock options granted, and 225,000 expired and none canceled during the 3 month period. There are 9,950,000 stock options currently outstanding under the Company's incentive stock option plan(s) with exercise prices ranging from \$0.20 - \$0.50 with expiry dates ranging to March 23, 2012.

The Company has no existing warrants outstanding.

If the Company were to issue all 9,950,000 shares issuable upon exercise of all incentive stock options outstanding, it would raise \$3,231,750.

Internal Controls over Financial Reporting

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of X-Cal Resources Ltd. are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. They have designed controls for this process and have conducted an evaluation which has identified certain weaknesses in the controls. Due to the limited number of staff at the Company, there is a potential weakness in the system of internal controls due to the Company's inability to achieve total appropriate segregation of duties. In order to reduce this risk, additional contracted professionals are used on a regular basis by the Company. These additional contractors possess technical knowledge in the areas of accounting, legal, and Canadian/US taxation. These additional resources of the Company also increase the likelihood that complex and non-routine accounting transactions will be identified and recorded in accordance with Canadian GAAP. While Management and the Board of Directors out-source

technical expertise where necessary to mitigate the risk of material misstatement, the Company does not have total assurance that this risk can be reduced to a remote likelihood of a material misstatement. The Company continuously reviews and evaluates its processes to further strengthen its system of internal controls. The Company believes that an adequate control environment exists at this time.

There were no significant changes in the Company's internal controls or, to the knowledge of management, in other factors that could significantly affect the disclosure controls and procedures subsequent to the date that this evaluation was carried out.

Multilateral Instrument 52-109 Disclosure

Disclosure controls and procedures have been designed to ensure the accuracy and timely filing of periodic financial reports as well as the disclosure of material information in accordance with securities regulations. Responsibilities for preparing, reviewing in advance, and releasing periodic reports, press releases and proxy statements have been assigned to members of the audit committee, Board of Directors, the comptroller, staff and other qualified persons. The Company has set out general disclosure guidelines dealing with the determination of material information and circumstances when assistance from outside legal counsel is required.

Items Subsequent to Period-End

Private placement

The Company was granted the right to sell and/or subsequently issue up to an additional 13,333,333 of its common shares and 6,666,666 warrants to fund ongoing mineral exploration on the Company's properties. The Company also subsequently issued the following shares:

Date	Type	No. of shares	Deemed or Issue Price Per Share	Gross Proceeds to Company
January 7, 2008	Private Placement	2,599,997	\$ 0.15	\$ 390,000

There are no further materially reportable events.

Additional Information

Additional information regarding X-Cal is available on SEDAR at www.sedar.com.