

## **MANAGEMENT DISCUSSION AND ANALYSIS**

(for the nine months ended December 31, 2009)

This period end 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 third quarter ending December 31, 2009 with those of the corresponding quarter of 2008. It is also an update to the Company's annual MD&A for the year ended March 31, 2009 and should be read in conjunction with the December 31, 2009 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 filed on the SEDAR website at [www.sedar.com](http://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 January 3, 2010.

All references to "2009" refer to the period ending December 31, 2009, and all references to "2008" refer to the period ended December 31, 2008, 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 Spring Valley properties in Nevada, USA. The Company has acquired a fourth Nevada gold property, the Reese River Pediment project.

The Company depends primarily 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 a prime location for reserve replacement where low cash cost ounces have historically been found. 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 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 - 2010, refer to work programs carried out within the calendar year.*

The Company has a 100% interest in the Sleeper Gold Project, subject to a 1% NSR.

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 NI 43-101 gold and silver resources and an extensive database for step out drilling and exploration targeting.

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](http://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 New Sleeper Gold Corporation's (now Reunion Gold Corporation) 50% interest in the Sleeper Joint Venture on May 16, 2006. The Company paid CDN \$5,000,000 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 buy out 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. At the date of this report, the remaining balance to complete this buyout is US \$300,000. An amendment to the original agreement allows the remaining payments to be spread into 2 payments to be made in December 2010 and December 2011, resulting in an additional interest payment of \$5,000.

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 by way of reports titled "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; updated in August 2009). 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, as well as the August 2009 update to Dr. Sillitoe's report were not filed on SEDAR but can be found in their entirety at the Company's website at [www.x-cal.com](http://www.x-cal.com).

Material highlights from an NI 43-101 Preliminary Economic Assessment ("PEA") and Technical Report were published by the Company on October 19, 2009. The complete NI 43-101 PEA and Technical Report has been filed on SEDAR on November 30, 2009. An "Abbreviated Executive Summary" containing highlights from the Sleeper Gold Property Preliminary Economic Assessment has been filed on SEDAR and is also available at the Company's website at [www.x-cal.com](http://www.x-cal.com).

The PEA demonstrates that the Sleeper Gold Project has the potential to be a "viable project" based on the existing NI 43-101 compliant resources. A graph in the new report shows a "robust business case, which is most sensitive to metal prices and heap leach process cost".

The production plan developed in the study is based on three independent modules:

1. 15 ktpd (kilotonnes per day) Heap Leach of New Oxide Ore
2. 3 ktpd Mill to process Tailings (from previous operations)
3. 25 ktpd Heap Leach to re-leach Heap Leach stockpile (from previous operations)

The plan allows each of the modules to be operated independently while gold is recovered from loaded carbon using a shared recovery plant.

The study considers a project that produces approximately 590,000 ounces of gold with a mine life of 6.5 years, using a selling price of \$800 per ounce of gold at an average cash cost of \$324 per ounce (after silver credit). Capital costs are estimated at \$86 million.

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 on which there is no data. Geologic cross-sections that reflect the revised Sleeper Geology are the framework for the current resource calculations.

Target areas in the Sleeper district should be drilled in light of the new interpretation.

Readers are 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](http://www.x-cal.com) and on the SEDAR website at [www.sedar.com](http://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](http://www.x-cal.com) or on SEDAR. Highlight assays are contained in the current presentations.

From January to the end of March 2007 two core holes totaling 1,691 feet and one RC hole 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 four core holes totaling 4,352 feet were completed in the West Wood Breccia Area.

An indication of a possibly 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. The January 2006 paper "Exploration Potential of the Sleeper Project" by Dr. Richard Sillitoe describes this and five other priority exploration targets.

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 should continue.

Bulk samples from the above ground heap materials have been collected for metallurgical work as part of overall program for the mineralization located east of the mine site in the Heaps and Facilities Areas.

Current work indicates that the Facilities Area gold and silver mineralization and the mineralization in the Heap Pads at Sleeper have the potential to be blended as the basis of renewed heap leaching operations at Sleeper. Metallurgical tests are recommended.

The mine scale exploration targets described by Dr. Sillitoe should be tested in series (NW, then SW, etc).

The Ken Snyder Gold Syndicate Company holds a 1% Net Smelter Production Royalty on the Sleeper Gold Property.

The NI 43-101 Technical Report on the Sleeper Gold Project was filed to SEDAR on September 25, 2008. A new NI 43-101 Preliminary Economic Assessment and Technical Report was filed on November 25, 2009 on SEDAR. A preliminary economic assessment (PEA) and an executive summary has been filed on SEDAR. All reports are also available on the Company's website. Gold and Silver Resources with near term economic potential and exploration upside are evident in the document.

A permit application for a new heap leach pad and on site bulk testing is recommended in the Technical Report, In light of the current positive Preliminary Economic Assessment the application for onsite heap leach testing should be a priority.

X-Cal carried out a sonic drill program on the heaps that collected material for assay and metallurgical work. The results of this work to date are encouraging and are also documented in the current Technical Reports. The engineering work should be continued.

The economic potential of 583,000 ounces of inferred gold resource and 1,249,000 ounces of inferred silver resource, located in the Heap Leach Pads, becomes more attractive if this material can be blended with other, additional nearby resource.

The 2007 definition drilling program of the nearby Facilities Area resulted in an additional 220,000 ounces of "indicated gold resource" with an average grade of 0.686 g/t Au, and (plus) 370,000 ounces of "inferred gold resource" with an average grade of 0.587 g/t Au. The in-ground Facilities Area resources may be able to be blended with the Heaps resource, which is located in close proximity.

A separate 130,000 ounces of inferred gold resource and 1,476,000 ounces of inferred silver resource are also above ground in tailings at Sleeper. The current PEA recommends processing this material by floatation method

In addition to the potential for renewed heap leach operations at Sleeper, the possible benefits of a ramp to access higher-grade material at West Wood should be evaluated.

The West Wood area contains high-grade intercepts such as 110 ft averaging 21.72 g/t Au and 209 ft averaging 10.67g/t Au, which are listed in the 2007 X-Cal Annual Report. A ramp could provide access to high-grade portions of the West Wood Resource for bulk sampling and new underground drill stations.

The West Wood area currently has an "indicated resource" of 380,000 ounces of gold with an average grade of 1.519 g/t Au and 1,750,000 ounces of silver with an average grade of 7.021 g/t Ag. Additionally, there is also a modest "inferred" gold and silver resource at West Wood, which is described in the Technical Report.

The requirement for step out and exploration drilling between the West Wood Area and the North West Target is apparent in the data. In light of the new geologic understanding, drilling of these areas should be a high priority.

The gold resource in the block model, both at West Wood and in the Facilities Area, conforms to the new understanding of mineralization controls at Sleeper. This knowledge should improve the success rate of both definition and exploration drilling.

The exploration upside of the Sleeper Gold District for new epithermal gold deposits is documented and very attractive.

The SW Target Area is 2 km long, located south west of the mine site. It is an example of a completely untested target, which is equal in area to the historic Sleeper mine site. SW is one of several areas, which illustrate the district scale potential of the Sleeper Gold Property.

### **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 two to four drill fences to test the target concepts.

An exploration budget to test all targets in Dr. Sillitoe's paper is estimated at US \$15 million. The minimum next phase budget is estimated at US \$3 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](http://www.sedar.com) and the Company's website [www.x-cal.com](http://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. 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 exceeded the minimum required, and within the time allotted, under the agreement. Placer Dome has forfeited the right to acquire a 51% interest in the property. Placer Dome's interest (now owned by Royal Gold, Inc.) 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 sixty-four 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.

### ***Spring Valley Area***

X-Cal has one hundred percent of 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 has 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 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 nine months ended December 31, 2009 and 2008.

	Nine Months Ended December 31, 2009		Nine Months Ended December 31, 2008	
Total interest income and gain on sale of property and equipment	\$	12,346	\$	85,115
Net income (loss)	\$	(1,164,480)	\$	(674,505)
Income (loss) per share	\$	(0.007)	\$	(0.005)
Cash, term deposits and marketable securities	\$	381,963	\$	56,833
Total assets	\$	35,649,856	\$	35,533,895
Total liabilities	\$	1,224,021	\$	1,119,929
Total shareholders' equity	\$	34,425,835	\$	33,413,966
Cash dividends per share	\$	Nil	\$	Nil

During the nine months ended December 31, 2009, the Company recorded net loss of \$1,164,480 or \$0.007 per common share (2008 – net loss of \$674,505 or \$0.005 per common share).

Interest income earned during the nine months ended December 31, 2009 was \$12,346 (2008 – \$85,115).

The following table outlines general and administrative expenditures attributable directly to the Company and not capitalized in any property for the nine months ended December 31, 2009 and 2008.

	Nine Months Ended	
	December 31, 2009	December 31, 2008
Accounting and audit	\$ 67,626	\$ 71,924
Amortization	8,716	16,188
Insurance	226,236	238,529
Legal	54,273	45,477
Office and other	30,144	18,088
Regulatory fees	27,288	39,478
Rent	13,500	11,574
Salaries, consultants' & directors' fees	109,061	129,790
Shareholder communications and investor relations	34,837	18,963
Stock-based compensation	29,637	87,581
Telecommunications	2,406	3,031
Travel	35,990	16,035
	639,714	696,658

General and administrative expenses for the nine months ended December 31, 2009 were \$639,714 (2008 - \$696,658). The Company recorded a decrease in costs. This is due to a decrease in Salaries, consultants & directors' fees.

For the nine months ended December 31, 2009, X-Cal recorded loss per share of \$0.007 (2008 – \$0.005 per share) based on a basic weighted average number of shares outstanding of 165,829,096 (2008 – 134,862,181). Actual shares outstanding as at December 31, 2009 were 167,198,439 (2008 – 136,976,323) representing loss per share of \$0.007 (2008 – loss per share of \$0.004).

For the nine months ended December 31, 2009, X-Cal recorded a foreign exchange loss of \$424,546 (2008 – gain \$4,233).

Other differences between the amounts incurred in 2009 and 2008 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.

<b>2010</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
Interest Income	\$3,772	\$5,200	\$3,374		
Net income (loss)	(\$290,568)	(\$592,114)	(\$281,798)		
Income (loss) per share	(\$0.002)	(\$0.004)	(\$0.002)		
<b>2009</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
Interest Income	\$31,782	\$24,498	\$28,834	\$3,114	\$88,228
Net income (loss)	(\$188,151)	(\$350,250)	(\$136,103)	\$254,026	(\$420,478)
Income (loss) per share	(\$0.001)	(\$0.003)	(\$0.001)	\$0.002	(\$0.003)
<b>2008</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
Interest Income	\$43,455	\$39,012	\$8,884	\$65,385	\$156,736
Net income (loss)	(\$456,381)	(\$244,358)	(\$293,293)	(\$555,523)	(\$1,549,555)
Income (loss) per share	(\$0.003)	(\$0.002)	(\$0.002)	(\$0.004)	(\$0.011)
<b>2007</b>	<b>1<sup>st</sup> QTR</b>	<b>2<sup>nd</sup> QTR</b>	<b>3<sup>rd</sup> QTR</b>	<b>4<sup>th</sup> QTR</b>	<b>TOTAL</b>
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)

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, 2009, the Company had cash and short-term investments of \$381,963 (2008 - \$56,833).

As at December 31, 2009, the Company had a working capital balance of \$325,877 (2008 - \$196,861 negative). The increase in working capital reflects the increase in equity financing and decrease in expenditures in mineral exploration.

During the nine months ended December 31, 2009 the Company issued no common shares in private placements (2008 -9,162,500 common shares for \$810,000), 50,000 shares were issued at a deemed value of \$6,000 for property acquisition purposes (2008 - 50,000 shares for \$750), 200,000 shares were issued for the exercise of stock options for proceeds of \$20,000 (2008 - Nil) and 4,537,500 common shares were issued for the exercise of warrants for proceeds of \$453,751(2008 - Nil).

Exploration and property costs during the nine months ended December 31, 2009 were \$967,506 (2008 - \$714,069). Of that amount \$907,523 (2008 - \$697,650) was incurred on the Sleeper Gold property. Additionally, \$18,682 (2008 - \$8,059) was spent on the Mill Creek Property. The Company further incurred costs of \$18,682 (2008 - \$8,360) on the Reese River Property. The Company incurred costs of \$22,619 (2008 - \$nil) for the Spring Valley Area Claims.

## **Commitments**

### **Office Lease**

The Company leases office space in Nevada. The lease agreement for this office space expired in November 2008. The Company now leases the premises on a month to month basis under the provisions of the original lease. The Nevada office lease requires the Company to pay \$1,200 monthly as its share of base rent. The Company also rents office space from a director or officer of the Company for \$1,500 per month on a month to month basis.

Payments are required to complete the buy-out of the title to the York Leased Lands. At the date of this report, the remaining balance to complete this buyout is US \$325,000. The agreement allows the remaining payments to be spread into 3 payments, with the final payment being made on December 7, 2011.

The Company has no long term drilling commitments.

### **Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to X-Cal.

### **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 \$66,000 per annum as payment in full for services provided. Should the Company terminate the agreement or should the Company have an effective change of control, it will be liable for payment of one year's salary at the full rate of \$72,000.

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

The Company entered into a management contract with an officer of the Company effective April 1, 2007 whereby it will pay the officer \$66,000 per annum. Under the terms of the contract, remuneration is reviewable on April 1 of each year, when such remuneration may be increased, but not decreased. The contract provides that, in the event of termination by the Company, the officer shall receive two times the annual amount of salary in the year of termination.

### **Net Smelter Return Royalty**

The Ken Snyder Gold Syndicate holds a 1% Net Smelter Production Royalty on the Sleeper Gold Property. Dr. Snyder retains 1% NSR 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 \$7,549 (2008 - \$nil) to a law firm in which a director of the Company is a partner. The Company incurred consulting expenses of \$49,500 (2008 - \$49,500) to a director and officer of the Company. The Company paid salaries of \$120,000 (2008 - \$120,000) to a director and officer of the Company and \$43,750 (2008 - \$27,000) to a party related to a director and officer of the Company. As at December 31, 2009, \$7,066 (2008 - \$10,934) was due to a director and officer of the Company, and is included in accounts payable. The Company incurred rental expenses of \$13,500 with a related party. A bonus of \$50,000 was paid to a director and officer of the Company. Directors and officers of the Company invested in shares in X-Cal throughout the period. Details of the share purchases are available on S.E.D.I.

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

### **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, December 31, 2009, available on SEDAR at [www.sedar.com](http://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 and Sleeper Mining Company, 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 using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred 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.

#### **1. Fair value**

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

account and environmental bonds are classified as held-to-maturity; and accounts payable and accrued liabilities are classified as other financial liabilities.

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

## **2. 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.

## **3. Credit risk**

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

## **4. 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.

## **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 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).

In September of 2008, the Company filed a NI 43-101 Technical Report which documents the gold and silver resources at Sleeper.

In November of 2009, the Company filed a NI 43-101 Technical Report which contains a positive Preliminary Economic Assessment of the gold and silver resources at Sleeper and documents areas for immediate expansion of the resources.

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 smelter 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 retains 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 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'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, 2009

The Company has unlimited share capital of common shares of no par value. Of this, the Company had 167,198,439 shares outstanding as of December 31, 2009 or 187,094,978 shares on a fully diluted basis. As at the date hereof, the total number of shares outstanding has not changed.

Date	Type	No. of shares	Deemed or Issue Price per share	Gross Proceeds to Company
March 31, 2009	Opening balance	162,410,939		
April 21, 2009	Property purchase	50,000	\$ 0.12	\$ 6,000 <sup>(1)</sup>
May 1, 2009	Warrant exercised	375,000	\$ 0.10	\$ 37,500
June 16, 2009	Warrant exercised	4,162,500	\$ 0.10	\$ 416,251
November 20, 2009	Options exercised	200,000	\$ 0.10	\$ 20,000
<b>December 31, 2009</b>	<b>Total</b>	<b>167,198,439</b>		<b>\$ 479,751</b>

<sup>(1)</sup> Deemed value, no cash received by the company

The Company had 400,000 stock options granted during the period, 200,000 of which were exercised within the third quarter for proceeds of \$20,000. 1,435,000 options expired or were forfeited during the period. There are 11,135,000 stock options outstanding as at December 31<sup>st</sup>, 2009 under the Company's incentive stock option plan(s), with exercise prices ranging from \$0.10 - \$0.35 with expiry dates ranging to March 23, 2012. As of the date of this report, an additional 640,000 stock options have been granted with an exercise price of \$0.17 that expire on January 27, 2013.

The Company had no warrants issued, and 3,525,000 expired or forfeited during the period. 4,537,500 warrants were exercised during the first two quarters for proceeds of \$453,750. There are 8,761,539 warrants currently outstanding with exercise prices ranging from \$0.10 - \$0.24 with expiry dates ranging to March 30, 2011.

If the Company were to issue all 11,135,000 shares issuable upon exercise of all incentive stock options outstanding, as well as all 8,761,539 shares issuable upon exercise of all warrants, it would raise \$3,961,154.

### ***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.

### ***Convergence with International Financial Reporting Standards ("IFRS")***

The AcSB has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, X-Cal will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the quarter ended June 30, 2011. X-Cal has commenced the development of an IFRS implementation plan to prepare for this transition, and is currently in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

- Exploration and development expenditures;
- Property, plant and equipment (measurement and valuation);
- Provisions, including asset retirement obligations;
- Stock-based compensation;
- Accounting for joint ventures;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of X-Cal's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training.

***Items Subsequent to Period-End***

There are no subsequent events to report.

***Additional Information***

Additional information regarding X-Cal is available on SEDAR at [www.sedar.com](http://www.sedar.com).