

## **MANAGEMENT DISCUSSION AND ANALYSIS**

(for the six months ended September 30, 2006)

This interim Management Discussion and Analysis ("MD & A") reviews the operating results and financial position of X-Cal Resources Ltd. ("X-Cal" or the "Company") and compares the financial results for the second quarter ending September 30, 2006 with those of the corresponding quarter of 2005. It is also an update to the Company's annual MD&A for the year ended March 31, 2006 and interim MD&A for the period ending June 30, 2006, and should be read in conjunction with the audited and unaudited financial statements and accompanying notes for all relevant periods, copies of which are filed on the SEDAR website: [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 November 10, 2006.

All references to "2006" refer to the six months ended September 30, 2006, and all references to "2005" refer to the six months ended September 30, 2005, 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. Under the terms of an agreement, the Company has acquired a fourth Nevada gold property, the Reese River Pediment project which is subject to an agreement with Barrick Gold

The Company depends on private placements and joint ventures to fund its corporate activities. These proceeds are used for investigation and appraisal of targeted mineral zones on its concessions, the administration and maintenance of the Company's operations, and compliance with all regulatory requirements.

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

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

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

The potential profitability of the Sleeper, 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, 2006 – 2005 – 2004, refer to work programs carried out within the calendar year.*

The Sleeper Gold Project is a 30 square mile gold district located in Humboldt County, Nevada. A 50% interest in the Sleeper 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 has been 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 to explore the Sleeper Gold Project. The Sleeper Joint Ventures company treasury was independent of both companies and managed on behalf of the Sleeper Joint Venture by New Sleeper Gold Corporation. The Sleeper Joint Venture was operated by a committee composed of members from each company. The work programs were managed by New Sleeper Gold Corporation.

The Company 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.

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 drilling and reverse circulation drilling in 2005. Extensive exploration targeting studies and surveys were initiated and substantially completed late in the two year program and most of the study results and data modeling were completed. The results of the studies have established a better definition of exploration targets. The surveys are described in detail in the NI-43-101 Technical Report (March 2006) filed on SEDAR.

The Company assembled a panel of professionals to independently review the Sleeper Gold Project and to make recommendations for ongoing work. Two of the 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 and a separate paper "Exploration Potential of the Sleeper Project, Nevada" by Dr. Richard H. Sillitoe. These papers are not NI-43-101 reports and should be considered a supplement to NI-43-101 documents for the project. The 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. has also been completed and is available for review.

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

Based on the findings of the above mentioned reports there have been five priority drilling targets identified and it's intended that 150 holes will be drilled totaling 150,000 feet. The Company began drilling the first of these targets, the Range Front, during the month of August, 2006. The Range Front is scheduled for 15 drill holes with testing along a 5km area located parallel and to the east of the Sleeper Mine site. Assays from several intervals in the first drill hole returned early encouragement.

Drill hole #RF-06-01 has intersected encouraging gold values:

- 20ft of 0.088 ounces (3.01 grams) per ton Au from 145 to 165ft.
- 60ft of 0.009 ounces (0.295 grams) per ton Au from 165 to 225ft.
- 20ft of 0.010 ounces (0.342 grams) per ton Au from 400 to 420ft.
- 5ft of 0.23 ounces (7.92 grams) per ton Au from 485 to 490ft.

The interval of 0.23 ounces (7.92 grams) per ton Au occurred in a volcanic quartz breccia with abundant pyrite and marcasite. A large part of the hole was anomalous with lower gold and silver values. A second drill hole #RF-06-02 located 3,000 ft. to the north of #1 has returned anomalous values. The anomalous values in hole #2 include: 135ft of 0.007 ounces (0.244 grams) per ton Au and 0.45 ounces (4.9 grams) per ton Ag from 185 to 320 ft.

Both drill holes merit further work. Currently assay results are behind drilling, due to an industry wide back-log of lab results. The size of the Sleeper Gold Project and number of targets allows for drilling of initial vectoring holes into a prospective area. During the waiting period for assays, drilling continues in other target areas.

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. web site at <http://www.x-cal.com> and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **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 or tested at all, 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 \$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 for viewing 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).

On June 29, 2005 the Company announced that it had entered into an option agreement with Placer Dome U.S. Inc., ("Placer Dome") (subsequently acquired by Barrick Gold Corporation), which gave Placer Dome a short-fused option to purchase the Company's Mill Creek Gold Property. The option expired on January 16, 2006.

Two holes were attempted, neither of which reached their intended depths due to difficult drilling conditions. The Mill Creek drill targets described by X-Cal in its July 11, 2005 news release were not tested by the current work. A Plan of Operations application has been filed by X-Cal which, when approved, will allow for drill sites throughout the target areas to facilitate the next phase of exploration. Completion of the review process and final approval of the Plan of Operations submittal is expected shortly.

### **Reese River/Horse Mountain Window Property**

The Company has entered into a formal agreement with Placer Dome (now Barrick Gold) to jointly explore three claim blocks totaling 3,000 acres in the Reese River Pediment, Lander County, Nevada. Title of the claims has been transferred from Placer Dome to the Company. The Company has 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 31, 2006. Barrick has a one time right to expend triple the Company's expenditures in Years Two and Three to earn back a 51% interest in the properties.

The Company has been carrying out a mapping and sampling program on the Reese River Property and is currently preparing to file a NI-43-101 Technical Report.

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.

To date, 329 rock samples and 926 soil samples have been collected on the property. The geochemical results from these samples are being integrated into a GIS database.

Drill permits and bonding are in place.

### **Spring Valley Area (WR Claims)**

X-Cal has recently staked thirty-eight new lode mineral claims in the Spring Valley Area, Pershing County, Nevada. Dr. Ken Snyder provided land research to the company which facilitated the

staking. An agreement on compensation for Dr. Snyder will be negotiated when land acquisition in this new area is completed.

## SUMMARY

As part of financing plans for 2006 exploration, the Company will include budgets for both of its early stage Cortez Area properties (Mill Creek/Goat Window and Reese River/Horse Mountain Window). However the Sleeper Gold Project, which is an advanced exploration project, will remain the primary focus of the Company.

### 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 six months ended September 30, 2006 and 2005.

		6 months ended September 30, 2006		6 months ended September 30, 2005
Total revenue excluding foreign exchange	\$	66,744	\$	56,958
Net loss for the period	\$	1,373,720	\$	326,368
Loss per share	\$	0.012	\$	0.004
Cash and term deposits	\$	4,544,195	\$	2,272,085
Total assets	\$	34,989,075	\$	22,507,031
Total liabilities	\$	1,314,761	\$	765,711
Total shareholders' equity	\$	33,674,314	\$	21,741,321
Cash dividends per share	\$	Nil	\$	Nil

Included in the consolidated financial statements for 2006 is the Company's newly acquired remaining 50% interest in the New Sleeper Gold LLC ("NSG LLC") joint venture. Whereas in 2005, only the Company's 50% share of the net assets and expenses of NSG LLC were included.

During the six months ended September 30, 2006, the Company recorded a net loss of \$1,373,720 or \$0.012 per common share and recorded a net loss of \$261,889 or \$0.002 per common shares for the three months ended September 30, 2006 (2005: \$326,368 or \$0.004 per common share, 3 months \$91,365 or \$0.001 per common share).

Interest income earned in the six months ended September 30, 2006 from cash and short-term monetary investments was \$41,753 (2005 – \$56,958) and for the three month period ended

September 30, 2006 interest earned was \$32,016 (2005 - \$23,632). This increase was due to higher cash balances on hand throughout the period in 2006 compared to 2005.

The following table outlines general and administrative expenditures attributable directly to the Company and those not capitalized in the property and attributable to NSG LLC. Financial information for the six months ended September 30, 2006 and 2005.

Six Months ended September 30,	2006			2005		
	X-Cal Resources Ltd.	NSG LLC 100% Interest	Total	X-Cal Resources Ltd.	NSG LLC 50% Interest	Total
	\$	\$	\$	\$	\$	\$
Accounting & Audit	57,278		57,278	31,467	6498	37,965
Amortization	12,968		12,968	14,490		14,490
Investor Relations	19,608		19,608	6,470	17,901	24,371
Insurance	35,712		35,712		104,093	104,093
Shareholder communication	57,256		57,256	44,816		44,816
Legal	81,079	470	81,550	17,793	11,711	29,504
Office & other	27,387	8,755	36,142	32,296	19,329	51,625
Rent	23,094	5,532	28,625	13,419	10,784	24,203
Salaries & consultants & contractors	347,351	53,440	400,791	87,282	46,378	133,660
Stock based compensation	436,679		436,679			
Regulatory fees	55,047		55,047	25,042		25,042
Telecommunications	14,593	2,112	16,705	10,500	3,184	13,684
Travel	63,209	13,802	77,011	12,958	4,429	17,387
<b>TOTAL</b>	<b>\$1,231,261</b>	<b>\$84,111</b>	<b>\$1,315,372</b>	<b>\$296,533</b>	<b>\$221,123</b>	<b>\$517,656</b>

General and administrative expenses for the six months ended September 30, 2006 were \$1,315,372 (2005 - \$517,656) and for the three months ended September 30, 2006 general and administrative expenses were \$332,891 (2005 - \$252,739). The Company recorded an overall increase in costs due to stock based compensation \$436,679 (2005: Nil) three months stock based compensation \$3,913 (2005 - Nil); the increase in Salaries is due largely to a bonus paid to an officer of the Company of \$150,000 and an increase in wages due to increased activity on the Company's Sleeper property and the Company now assuming 100% of the costs. Increases in travel and investor relations in 2006 are due to the Company's financing efforts. The increase in legal expenses is due to the closing of the Company's acquisition of NSG LLC.

For the six months ended September 30, 2006 X-Cal recorded a loss per share of \$0.012 (2005: \$0.004) based on a weighted average number of shares outstanding of 109,476,878 (2005:

76,135,255). Actual shares outstanding as at September 30, 2006 were 123,635,255 (2005: 76,135,255) representing a loss per share of \$0.011 (2005: \$0.004).

For the six months ended September 30, 2006, X-Cal recorded an unrealized foreign exchange loss of \$125,092 (2005 – \$122,114) and a slight gain during the three months ended September 30, 2006 \$24,209 (2005 – \$134,871). This loss was due mainly to the strength of the Canadian Dollar against the US Dollar and fluctuation during the three month period.

Other differences between the amounts incurred in 2006 and 2005 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 three months ended September 30, 2006.

<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	\$9,737	\$32,016			\$41,753
Net Loss	\$1,111,831	\$261,889			\$1,373,720
Loss per share	\$0.013	\$0.002			\$0.012
<b>2006</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	\$33,326	\$23,632	\$35,143	\$15,038	\$107,139
Net Loss	\$234,993	\$379,324 <sup>(1)</sup>	\$278,389 <sup>(1)</sup>	\$638,366	1,531,072
Loss per share*	\$0.003	\$0.005	\$0.004	\$0.008	\$0.02
<b>2005</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	\$45,099	\$47,523	\$82,837	\$3,267	\$178,726
Net loss	\$48,972	\$558,961	\$641,670	\$538,939	\$1,788,542
Loss per share*	\$0.001	\$0.007	\$0.008	\$0.007	\$0.02

\*Basic, \*\*Basic and diluted

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.

General and administrative expenses for the six months ended September 30, 2006 were \$1,315,372 (2005 - \$517,656). The increase in expenses is attributable to stock-based compensation recorded during the quarter \$436,679 (2005 - Nil), costs associated with financing \$153,875 (2005: Nil), increased legal costs due largely to closing of the acquisition of NSG LLC, \$81,550 (2005: Nil), and a bonus of \$150,000 included in salaries, consultants and contractors (2005: Nil).

Other differences between the amounts incurred in 2006 and 2005 reflect normal variances in business activities from year to year.

### ***Liquidity and Capital Resources***

As at September 30, 2006, the Company had cash and short-term investments of \$4,544,195 (2005 \$2,272,085). At September 30, 2006, the Company held \$4,505,731 in guaranteed investment certificates, term deposits and on deposit with the Bank of Montreal. Additionally, the Company holds \$61,677 in the Wells Fargo Bank in the US. The Company also holds \$3,018 in marketable securities (recorded at cost) (2005 - \$2,277).

As at September 30, 2006, the Company had a working capital balance of \$4,429,981 (2005 - \$1,433,325). The increase in working capital reflects an increase in financing activities (2006: \$10,640,000; 2005: Nil). The Company paid \$5,000,000 in cash to acquire the additional 50% interest in the NSG LLC and continues to be active in the exploration of its properties, with its priority being the exploration of the Sleeper Gold Property.

In 2006 the Company issued 37,500,000 common shares for gross proceeds of \$10,640,000 (2005 - Nil) in private placements and issued an additional 10,000,000 shares at a deemed value of \$3,200,000 for property acquisition purposes (2005 - Nil); no common shares were issued for the exercise of options (2005 - Nil) so the Company received no proceeds in 2006 (2005 - \$Nil); and the Company had no shares issued for the exercise of warrants and accordingly received no proceeds (2005 - Nil).

Contractual property acquisition and holding costs for 2006 were \$60,865 (2005 - \$50,000). Previously, future advance royalty payments due under the Sleeper Gold Project were paid by the joint venture; they will now be the sole responsibility of the Company.

Exploration and property costs in 2006 were \$1,785,876 (2005 - \$1,536,545). Of that amount \$1,662,423 (2005 - \$1,136,636) was incurred on the Sleeper Gold property. Additionally, \$38,497 (2005 - \$149,0964) was spent on the Mill Creek Property. The Company has incurred nominal expenses on this property during the period. The Company further incurred \$70,784 (2005 - 24,813) on the Reese River Property. Additionally, the Company incurred \$14,172 for staking fees for the new WR, Spring Valley Area Claims (2005 - Nil).

For the three months ended September 30, 2006 the Company incurred exploration and property costs of \$1,157,022 (2005 - \$520,738). Of this amount \$1,055,922 (2005 - \$406,616) was incurred on the Sleeper Property, \$20,300 (2005 - \$89,308) was expended on the Mill Creek Property, \$66,628 (2005 - \$24,813) was expended on the Reese Property. The company also incurred \$14,172 in staking fees for the Spring Valley Area claims during the three months ended September 30, 2006.

## **Commitments**

### **Office Lease**

The Company leases office space in Vancouver. The lease agreement, which expires in July 2007, requires the company to pay \$26,187 annually as its share of base rent and operating costs.

### **Management Agreements**

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

The Company has an employment contract with its President. Under the terms of that contract, remuneration is reviewable on October 1st of each year, when such remuneration may be increased, but not decreased. The remuneration for the President was increased during the period to \$160,000 per annum from \$120,000 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.

### **Related Party Transactions**

The Company has made an accrual and paid legal fees and expenses of \$19,643 (2005 - \$6,306) to a law firm of which a director of the Company is a partner. The Company paid an aggregate of \$30,833 (2005 - \$6,000) in consulting fees and expenses to a director and officer of the Company. The Company also paid a \$150,000 bonus to the President of the Company.

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 Unaudited Interim Consolidated Financial Statements, September 30, 2006 and to the Audited Consolidated Financial Statements, March 31, 2006 and 2005 available on SEDAR @ [www.sedar.com](http://www.sedar.com).

### **Principles of Consolidation**

The consolidated financial statements and information contained therein include the accounts of the Company and its wholly owned subsidiaries X-Cal U.S.A. Inc. and New Sleeper Gold LLC. The Company's interest in the New Sleeper Gold LLC, through which it carries on its principal mineral exploration activities, was accounted for using the proportionate consolidation method while it was operated as a joint venture. Subsequent to the acquisition of the joint venture partner's interest, the results are consolidated wholly.

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

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

## **Stock-Based Compensation**

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

## **Financial Instruments**

The Company has various financial instruments including cash, deposits, funds held in trust, 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, deposits, accounts payable and accrued liabilities, reclamation and environmental obligations approximate their fair values because of the short-term maturity of these financial instruments.

(b) Interest rate risk

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

(c) Foreign currency risk

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

## **Outlook**

### **Exploration Expenditures**

The gold production industry has consolidated and continues to face the need for reserve replacement, as predicted in previous annual reports. The Company has assembled and documented the Sleeper Gold Project over a period of years beginning with the first land acquisitions in the area in December 1993. New Sleeper Gold LLC (50% X-Cal/50% New Sleeper Gold Corporation) under the direction of New Sleeper Gold Corporation as operator of the Sleeper Joint Venture did not make the breakthrough discovery that shareholders had been anticipating for this project. However, the Sleeper Joint Venture team carried out exploration work at Sleeper and a large volume of new data was produced which can be used to target future work.

The Company 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 what it feels to be an experienced team of professionals to carry on current exploration programs as recommended in the NI-43-101 Technical Report (March 2006). The Company has currently budgeted \$1.3 million to begin 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) as next phase exploration program.

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. The Company had entered into an option agreement with Placer Dome U.S. Inc. in which Placer was given a short-fused option to purchase the property. The option was not exercised.

As part of forward planning for the Mill Creek Property, X-Cal awaits approval of a Plan of Operations type of permit, which will allow for comprehensive drill testing at Mill Creek in 2006. The Plan of Operations Permit will facilitate continued exploration during 2006.

The Reese River agreement between the Company and Placer Dome (now Barrick Gold) allows for work programs that are based on recommendations of a technical team composed of both Placer Dome (Barrick) and the Company's personnel. The Company has committed to fund a minimum of US \$200,000 of drilling work prior to December 31, 2006 or a later date as may be agreed to by X-Cal & Barrick if a time extension is required due to availability of drilling equipment.

### **Potential for Corporate Developments**

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

### **Risks and Uncertainties**

#### **Risks related to the Mining Exploration Industry Generally**

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

#### **Risk associated with mineral tenure rights**

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

#### **Uninsured Risks**

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

### **Competition**

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

## Management

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

## Requirement for Further Financing

The Company is dependent upon equity financing to continue to fund its exploration activities and general operations. The Company believes that the current funds on hand should be sufficient to finance its operations and capital needs until the end of fiscal year end 2007. However, the Company's funding needs may vary depending upon results obtained from current exploration activities. The Company's ability to raise future capital will be in part affected by capital markets and market prices for gold. There is no assurance that such additional financing will be available.

## Outstanding share data as at November 10, 2006

The Company has unlimited share capital of common shares of no par value. Of this, the Company has 123,635,255 shares outstanding or 132,270,255 shares on a fully diluted basis. Summary of shares issued during the period:

Date	Type	No. of shares	Deemed or Issue Price per share	Gross Proceeds to Company
March 31, 2006	Opening balance	76,135,255		
May 16, 2006	Property Acquisition	10,000,000	\$0.32	\$3,200,000 <sup>(1)</sup>
May 16, 2006	Private Placement	23,517,001	\$0.28	\$6,584,760
May 18, 2006	Private Placement	10,482,999	\$0.28	\$2,935,240
Sept 06, 2006	Private Placement	3,500,000	\$0.32	\$1,120,000
<b>Nov 10, 2006</b>	<b>Total</b>	<b>123,635,255</b>		

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

The Company granted an additional 20,000 incentive stock options during the period. There are 8,635,000 stock options currently outstanding under the Company's incentive stock option plan(s) with exercise prices ranging from \$0.33 - \$0.80 with expiry dates ranging to May 31, 2011.

The Company has no existing warrants outstanding.

If the Company were to issue all 8,635,000 issuable upon exercise of all incentive stock options outstanding, it would raise approximately \$2,936,000.

## Items Subsequent to Period-End

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