## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis ("MD&A") of the consolidated financial conditions and results of operations for the year ended December 31, 2013 and 2012 of Xtra-Gold Resources Corp. ("Xtra-Gold" or the "company") should be read in conjunction with the consolidated financial statements and the related notes to our consolidated financial statements and other information presented in our annual report on Form 20-F which has been filed with the Securities and Exchange Commission (the "SEC") and can be viewed at www.sec.gov and has also been filed with SEDAR and can be viewed at www.sedar.com. Our consolidated audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and as set forth in our 20-F annual report, particularly in the item entitled "Risk Factors" beginning on page 8 of our 20-F annual report.

The information in this MD&A contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding Xtra-Gold's financial condition, results of operations, business prospects, plans, objectives, goals, strategies, expectations, future events, capital expenditure and exploration efforts. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "anticipates", "expects", "intends", "plans", "forecasts", "projects", "budgets", "believes", "seeks", "estimates", "could", "might", "should" "may", "will", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined from time to time, in reports that Xtra-Gold files with SEDAR and the SEC. These factors may cause our company's actual results to differ materially from any forward-looking statement. Our company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements.

### 2013 Highlights

During the year ended December 31, 2013, in connection with our Kibi Gold Project, located on the Kibi Gold Belt, we announced:

- new gold shoot discovered along the Zone 5 - Main shear structure approximately 350 meters southwest of discovery high-grade gold shoot including surface saw-cut channel sample results of 3.9 meters grading 5.9 g/t gold, 1.1 meters grading 14.77 g/t gold, and 1.6 meters grading 11.14 g/t gold (March 4) and saw-cut and trench channel sample results of 5.1 meters grading 5.88 g/t gold and 3 meters grading 10.37 g/t gold (April 25);

- Zone 5 gold corridor delineated over a minimum 325 meter width with the braided shear zone system encompassing at least 7 auriferous shear zones; with the Main shear traced over an approximately 500 meter strike length (April 25);

- completed a 31.2 kilometer pole-dipole induced polarization / resistivity survey ("IP Survey") covering the 1.8 kilometer long Zone 5 gold-in-soil anomaly; preliminary interpretation of IP data indicates that the Main shear and L7600W auriferous structures lie in close proximity to high resistivity axes along the southeast and northwest margins of a broad resistivity read extending over a 1,000 meter distance, with the Main shear mineralization spatially associated with a coincident high resistivity / intermittent weak – moderate chargeability signature extending over an approximately 600 meter strike distance (April 25);

- additional trench and channel sampling results reported from the Zone 5 Gold Corridor, as well as initial ground-proofing results of high priority gold targets recently defined by the IP Survey including 6 meters grading 5.96 g/t gold, 3 meters grading 6.39 g/t gold, 6.8 meters grading 3.12 g/t gold, 2.4 meters grading 6.25 g/t gold, 1.1 meters grading 14.05 g/t gold. 3.8 meters grading 6.84 g/t gold, 1.3 meters grading 9.07 g/t gold and 3 meters grading 17.96 g/t gold (June 12);

- new bedrock exposure of Main Shear discovered approximately 250 meters southwest of the L7600N Gold Shoot along a prominent high resistivity trend; extending the apparent strike length of the Main Shear gold mineralization to approximately 775 meters (June 12);

- new iron formation-hosted gold target exhibiting spatial association with a series of coincident high chargeability (IP) / weak – moderate resistivity anomalies lying along a regional structure discovered on the Zone 5 grid (June 12);

- final interpretation of the Zone 5 IP survey results indicates an approximately 350 meter long, deep-rooted (> 225 meters), SW-plunging, coincident chargeability (IP) / resistivity anomaly spatially associated with the High Grade Gold Shoot and Tourmaline Zone at the northwest extremity of the Main Shear structure (December 12); and

- two additional high-priority, 475 meters and 600 meters long, IP targets identified along prominent ENE-trending resistivity anomalies paralleling the gold-bearing resistivity trend spatially associated with the Main Shear and Old Pit auriferous structures (December 12).

During the year ended December 31, 2013, in connection with our Kwabeng Project, located on the Kibi Gold Belt, we announced:

- 4 prominent clusters of gold bearing rock floats and/or subcrops identified over an approximately 1.2 kilometer distance on the new Bomaa target on our Kwabeng project, with 64 (59%) out of 109 composite chip samples from mineralized argillite floats / subcrops returning gold values above 0.1 g/t, including gold values reaching up to 20.7 g/t and 6.53 g/t; and scout soil geochemical sampling yielding gold-in-soil values attaining 2,230 parts per billion ("ppb"), 1,150 ppb, and 606 ppb spatially associated with the 275 meter long by 20 meters to 60 meters wide Bomaa North mineralized argillite float and/or subcrop cluster (November 21).

Placer gold recovery operations commenced at our Kwabeng project in late March 2013.

**Overview**

We are a gold exploration company engaged in the exploration of gold properties in the Republic of Ghana, West Africa. Our mining portfolio currently consists of 225.87 square kilometers comprised of 33.65 square kilometers for our Kibi project, 51.67 square kilometers for our Banso project, 55.28 square kilometers for our Muoso project, 44.76 square kilometers for our Kwabeng project, and 40.51 square kilometers for our Pameng project, or 55,873 acres, pursuant to the leased areas set forth in our mining leases.

**Plan of Operations**

Our strategic plan is, with respect to our mineral projects, to conduct an exploration program, consisting of:

- reconnaissance geology and prospecting to further define the strike extensions of the seven known gold-bearing structures hosted by the Zone 5 gold corridor and to ground proof additional high priority targets identified by the IP survey along the 1.8 kilometers long Zone 5 gold-in-soil trend;

- trenching and outcrop stripping to further expose the known Zone 5 auriferous structures in preparation for systematic geological mapping and channel sampling in preparation for drill target definition;

- scout trenching focusing on the prioritization of additional Kibi project gold showings yielded by our recently completed property-wide soil geochemical survey, geological modeling, and VTEM targets;

- ongoing geological compilation, prospecting, soil geochemical sampling, and scout trenching to identify and/or further advance grassroots targets on our Kwabeng, Pameng and Kibi projects;

- a drilling program of approximately 300 to 500 meters on our Kibi project;

- to define a mineral resource and, perhaps ultimately, a mineral reserve on our other exploration projects and, in this regard, we may also attempt to do this by optioning to other qualified exploration entities;

- to continue placer gold recovery operations at our Kwabeng project during 2014 (commenced in March 2013); and

- to acquire further interests in gold mineralized projects that fall within the criteria of providing a geological basis for development of drilling initiatives that can enhance shareholder value by demonstrating the potential to define reserves.

As part of our current business strategy, we plan to continue engaging technical personnel under contract where possible as our management believes that this strategy, at its current level of development, provides the best services available in the circumstances, leads to lower overall costs and provides the best flexibility for our business operations.

We anticipate that our ongoing efforts will continue to be focused on the exploration and development of our projects and completing acquisitions in strategic areas.

In October 2008, we temporarily suspended our placer gold mining operations at our Kwabeng project while our management evaluated a more economic and efficient manner in which to extract and process the gold from the mineralized material at this project. Our operations resumed in 2010, which focused primarily on reclamation. As at the date of this MD&A, we have resumed our recovery of placer gold operations at our Kwabeng project. We contract out as many services as possible on our placer gold recovery operations to local Ghanaians in order to maximize cost efficiencies.

We anticipate that, over the next 12 months, we will spend an aggregate of approximately $1,400,000 comprised of $1,000,000 for exploration expenses in connection with our 2014 exploration and planned drilling program on our Kibi gold project to identify an additional mineral resource ($600,000), soil sampling and trenching on our Kwabeng, Pameng and Kibi projects ($400,000) and approximately $400,000 for general and administrative expenses (which excludes approximately $500,000 in non-cash stock-based compensation expense). We have budgeted $100,000 for share repurchases under our 2014 normal course issuer bid and $nil for capital expenditure in connection with our Ghana operations. These expenditures are subject to change if management decides to scale back or accelerate operations.

Our company has historically relied on equity and debt financings to finance its ongoing operations. Existing working capital, possible debt instruments, anticipated warrant exercises, further private placements and anticipated cash flow from placer gold recovery operations are expected to be adequate to fund our company's operations over the next year. During the current year and subsequent to 2014, we will require additional capital to implement our plan of operations. We anticipate that these funds primarily will be raised through equity and debt financing or from other available sources of financing. If we raise additional funds through the issuance of equity or convertible debt securities, it may result in the dilution in the equity ownership of investors in our common stock. There can be no assurance that additional financing will be available upon acceptable terms, if at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to take advantage of prospective new opportunities or acquisitions, which could significantly and materially restrict our operations, or we may be forced to discontinue our current projects.

**Trends**

In 2013, many commodity and stock market indices continued to experience historically high levels of volatility in the face of global economic uncertainty. Gold prices decreased over 2013 as financial markets sold gold to invest in other equities which were more consistent with economic growth prospects.

During 2013, the U.S. dollar strengthened against most currencies, as economic reports reflected a U.S. economic recovery in progress.

Gold price volatility in 2012 remained high with the price reaching a high of US$1,791.75 per ounce. During 2013, the gold price continued to be volatile, reaching a high of $1,693.75 per ounce on January 2, 2013 and a low of $1,192.00 on June 28, 2013. The average market price for 2013 was $1,411 per ounce compared to an average market price in 2012 of $1,669. The tone for the precious metals market in the near future will depend on whether the U.S. dollar will be supported and if the central banks will continue to maintain interest rates at low levels to support economic growth. The continued global easing of monetary policy could lead to higher inflation and further U.S. dollar depreciation in coming years. This dollar depreciation could have a positive impact on gold prices in the future and the long–term upward trend in prices may continue. Conversely, subdued inflation rates and the recovering global economy could put downward pressure on the gold price in the future. Additionally, recent events in Europe could continue to have a positive effect on the gold price.

Overall, a lower U.S. dollar should lead to higher costs in U.S. dollar terms to identify and explore for gold but could be more than offset by higher gold prices, resulting in greater interest in gold exploration companies. Conversely, if the U.S. dollar strengthens further, interest in the gold exploration sector could be reduced.

**Results of Operations for the Year Ended December 31, 2013 as Compared to the Year Ended December 31, 2012**

Our company's loss for the year ended December 31, 2013 was $750,942 as compared to a loss of $7,631,636 for the year ended December 31, 2012, a decrease of $6,880,694. Our company's basic and diluted loss per share for the year ended December 31, 2013 was $0.02 compared to net loss of $0.16 per share for the year ended December 31, 2012. The weighted average number of shares outstanding was 46,481,748 for the year ended December 31, 2013 compared to 44,698,113 for the year ended December 31, 2012.

The increase in the weighted average number of shares outstanding can be mostly attributed to the issue of 1,929,000 shares late in 2012 which affected 2013 more significantly than 2012.

We incurred expenses of $1,698,704 in the year ended December 31, 2013 as compared to $7,062,936 in the year ended December 31, 2012, a decrease of $5,364,232. The decrease in expenses in the year ended December 31, 2013 can be primarily attributed to a decrease of $3,921,670 in exploration costs to $985,107 (2012 - $4,906,777) resulting from less drilling and other exploration activities conducted at our Kibi project. We expense all exploration costs. General and administrative expenses decreased in 2013 mostly resulting from non-cash stock based compensation expenses.

Exploration spending in 2013 reflected the general slowdown in the junior market compared to spending in 2012. Exploration efforts for the 2013 year focused on surface work designed to advance the Zone 5 target on our Kibi project to the drilling stage and to identify and/or further advance grassroots targets on our Kwabeng project. We conducted outcrop stripping and geological mapping / channel sampling on Zone 5 of our Kibi project including 428 bedrock saw-cut channel samples collected from the Main Shear – L7600N Gold Shoot exposure totalling 250 meters and 458 bedrock saw-cut channel samples totalling 300 meters collected from the remaining 6 shear zones. An additional 825 saprolite trench channel samples totalling 957 meters were also collected to further delineate the Zone 5 gold corridor. A total of 199 rock composite chip samples, 511 soil geochemical samples, 42 saprolite trench channel samples, and 19 stripped outcrop saw-cut channel samples were collected from grassroots prospecting efforts on our Kwabeng project. Exploration activity in 2012 included drilling of 12,984 meters and trenching of 3,350 meters, while 11,683 drill assays and 3,317 trenching assays were received from the lab.

During the first quarter of 2012, we received a final option payment of $135,000 from Discovery Gold Corporation (formerly Norman Cay Development, Inc.) for our Edum Banso project, completing the requirements for the transfer of our interest in this project.

General and administrative expenses were $468,938 for the year ended December 31, 2013, compared to $1,986,604 for the year ended December 31, 2012. This decrease can be primarily attributed to a reduced stock-based compensation expense in 2013. The non-cash component of general and administrative expenses was $58,055 in 2013 (2012 - $1,041,591). There were no option grants in 2013. During 2012, there was one grant and the term of the existing options were extended. The legal costs associated with the continuation of our company to the British Virgin Islands in 2012 also represented a significant decrease in the 2013 general and administrative expenses compared to 2012. Other general and administrative costs included consulting fees, regulatory fees, auditor and regulatory filing fees, travel and promotional expenses. Amortization for the year ended December 31, 2013 was $244,659 as compared to $304,555 for the year ended December 31, 2012, a decrease of $59,896. The decrease in amortization in 2013 compared to 2012 resulted as no equipment was purchased in 2013.

We reported a gain related to other items in the Statement of Operations and Comprehensive Loss of $947,762 for the year ended December 31, 2013 compared to a loss of $568,700 for the year ended December 31, 2012. The gain can be primarily attributed to recovery of gold of $1,015,203 compared to $70,556 in the year ended December 31, 2012 as gold recovery operations were restarted in 2013. Also, the liability of approximately $340,000 related to the embedded derivative in the warrants issued with the sale of units in December 2012 mostly reversed in 2013 due to decreased share prices.

During the year ended December 31, 2013, our company had a foreign exchange loss of $93,155 compared to a gain of $21,684 in the year ended December 31, 2012 which can be attributed to a stronger U.S. dollar in 2013.

Our company’s portfolio of marketable securities had an unrealized loss of $193,612 in the year ended December 31, 2013 compared to an unrealized loss of $805,953 in the year ended December 31, 2012. Most of the 2013 unrealized loss resulted from holding shares received from companies which optioned certain of our properties. Our company recognized a $21,440 realized gain on sale of securities in the year ended December 31, 2013 compared to a realized gain of $379,363 from the sale of securities in the year ended December 31, 2012. Unrealized gains and losses reflect mark-to-market changes in the investment portfolio during a period. A realized gain is recognized when securities are sold from the investment portfolio, being the difference between the selling price and the purchase price of the security sold. At the time of the sale, any mark-to-market gain or loss which was related to the security sold, previously recognized in unrealized gains and losses, is reversed.

Other income of $342 (2012 - $110,424) mostly relates to dividends on investment portfolio assets. Our company recognized a loss of $130,000 due to a theft as a result of our company’s email accounts being compromised. Efforts are underway to recover the balance. If efforts are successful any balances recovered will be recognized as a gain in the period of recovery.

During the year ended December 31, 2013, we sold 1,706 ounces of gold for net proceeds of $1,015,203 (2012 - $70,556). There were no placer gold recovery efforts conducted in 2012, with revenue recognized on 2012 shipments of gold recovered in 2011. Gold sales relating to our share of gold is not recognized until the risks and rewards of ownership passed to the buyer. These placer gold recovery operations were contracted to local Ghanaian groups. We pay a 5% government royalty on our gold sales. Using local contractors promotes the local economy while avoiding illegal workings on our projects.

A warrant recovery of $338,597 was recognized in 2012 (2012 – expense $339,589). Canadian dollar denominated warrants were issued with the December 2012 financing. These warrants were deemed to be embedded derivatives since our company's functional currency is the U.S. dollar. The warrants are marked to market in each period with the change in value recognized in other items of the Statement of Operations and Comprehensive Loss.

**Liquidity and Capital Resources**

Our activities, principally the exploration and acquisition of properties for gold and other metals, may be financed through joint ventures or through the completion of equity transactions such as equity offerings and the exercise of stock options and warrants. During the year ended December 31, 2013, our company repurchased 276,000 of our shares at a cost of $114,894. The shares were cancelled. During the year ended December 31, 2012, our company issued 1,929,000 units comprising shares and half warrants, for proceeds of CAD$1,639,650 (US$1,660,025) in connection with a private placement and $110,000 in connection with the exercise of 110,000 stock options.

At December 31, 2013, accounts payable and accrued liabilities decreased to $310,912 (December 31, 2012 - $404,507), due to a decrease in general business payables. Our cash and cash equivalents as at December 31, 2013 were sufficient to pay these liabilities. We believe that our company has sufficient working capital to achieve our 2014 operating plan.

At December 31, 2013, we had total cash and cash equivalents of $1,305,281 (December 31, 2012 - $2,308,916). Working capital as of December 31, 2013 was $1,405,291 ($1,406,283 excluding the warrant liability of $992) (December 31, 2012 - $1,948,426). The decrease in cash mostly reflects exploration and administrative spending. During the year ended December 31, 2013, our company sold $110,463 in tradeable securities.

We are an exploration company focused on gold and associated commodities and do not have operating revenues; and therefore, we must utilize our current cash reserves, income from placer gold sales, income from investments, funds obtained from the exercise of stock options and warrants and other financing transactions to maintain our capacity to meet the planned exploration programs, or to fund any further development activities. There is no certainty that future financing will be available to us in the amounts or at the times desired on terms acceptable to us, if at all.

Our shares of common stock, warrants and stock options outstanding as at March 28, 2014, December 31, 2013 and December 31, 2012 were as follows:

| | March 28, 2014 | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Common Shares | 46,259,917 | 46,263,917 | 46,539,917 |
| Warrants | 964,500 | 964,500 | 964,500 |
| Stock Options | 2,489,000 | 2,489,000 | 2,639,000 |
| Fully diluted | 49,713,417 | 49,717,417 | 50,143,417 |

As of the date of this MD&A, the exercise of all outstanding warrants and options would raise approximately $3.5 million, however such exercise is not anticipated until the market value of our shares of common stock increases in value.

We remain debt free and our credit and interest rate risk is limited to interest-bearing assets of cash and bank or government guaranteed investment vehicles. Accounts payable and accrued liabilities are short-term and non-interest bearing.

Our liquidity risk with financial instruments is minimal as excess cash is invested with a Canadian financial institution in government-backed securities or bank-backed guaranteed investment certificates.

Our fiscal 2014 budget to carry out our plan of operations is approximately $1,400,000 as disclosed above under "Plan of Operations".

We believe that we are adequately capitalized to achieve our operating plan for fiscal 2014. As is typical for junior exploration companies, we will require additional funds from equity sources to maintain the current momentum on our projects. At December 31, 2013, there were no borrowings or capital expenditure commitments made by our company.

***Recent Capital Raising Transactions***

During December 2012, we completed a private placement and raised $1,660,025 (CAD$1,639,650) from the issuance of 1,929,000 units comprised of 1,929,000 common shares and 964,500 common share purchase warrants.

***Going Concern***

We have incurred net losses of $25,553,473 since inception through December 31, 2013. The report of our independent registered public accounting firm on our financial statements for the years ended December 31, 2013 and 2012 contains an explanatory paragraph regarding our ability to continue as a going concern based upon an ongoing history of financial losses and because our company is dependent on our ability to raise additional capital, which may not be available when required, to implement our business plan. These conditions are typical for junior exploration companies. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. There are no assurances we will be successful in our efforts to increase our revenues and report profitable operations or to continue as a going concern.

**Material Commitments**

***Mineral Property Commitments***

Our company is committed to expend, from time to time fees payable:

- to the Minerals Commission of Ghana for:
  - an extension of an expiry date of a prospecting license (currently $15,000 for each occurrence);
  - a grant of a mining lease (currently $100,000);
  - an extension of a mining lease (currently $100,000);
  - annual operating permits; and
  - the conversion of a reconnaissance license to a prospecting license (currently $20,000);
- to the Environmental Protection Agency of Ghana for:
  - processing and certificate fees with respect to EPA permits;
  - the issuance of permits before the commencement of any work at a particular concession; or
  - the posting of a bond in connection with any mining operations undertaken by our company; and
- for a legal obligation associated with our mineral properties for clean up costs when work programs are completed. We are committed to expend an aggregate of less than $500 in connection with annual ground rent and mining permits to enter upon and gain access to the area covered by our mining leases and future reconnaissance and prospecting licenses for our following concessions and such other financial commitments arising out of any approved exploration programs in connection therewith:
  - the Apapam concession (Kibi project);
  - the Kwabeng concession (Kwabeng project);
  - the Pameng concession (Pameng project);
  - the Banso concession (Banso project); and
  - the Muoso concession (Muoso project).

Upon and following the commencement of gold production at any of our projects, a royalty of the net smelter returns is payable quarterly to the Government of Ghana as prescribed by legislation.

***Purchase of Significant Equipment***

We consider the availability of equipment to conduct our exploration activities. Due to demand from the mining and exploration industry it may be difficult to source resources for exploration work in Ghana, including drills, excavators and bulldozers. We will consider the further acquisition of equipment pieces to allow work to expand on our projects.

***Off Balance Sheet Arrangements***

Our company has no off balance sheet arrangements.

***Significant Accounting Applications***

**Application of Critical Accounting Policies**

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

**Generally accepted accounting principles**

These consolidated financial statements have been prepared in conformity with U.S. GAAP **[NTD: now defined on page 1]**.

**Principles of consolidation**

These consolidated financial statements include the accounts of our company, our wholly owned subsidiaries, Xtra Energy (from October 31, 2003), XG Exploration (from February 16, 2004), XOG (from October 20, 2005) and XOGG (from March 2, 2006) and our 90% owned subsidiary, XG Mining (from December 22, 2004). All intercompany accounts and transactions have been eliminated on consolidation.

**Use of estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of estimates include the carrying value and recoverability of mineral properties, inputs used in the calculation of stock-based compensation and warrants, inputs used in the calculation of the asset retirement obligation, and the valuation allowance applied to deferred income taxes. Actual results could differ from those estimates, and would impact future results of operations and cash flows.

**Cash and cash equivalents**

Our company considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash and cash equivalents consisted of cash held at financial institutions.

**Receivables**

No allowance for doubtful accounts has been provided. Management has evaluated all receivables and believes they are all collectible.

**Recovery of gold**

Recovery of gold and other income is recognized when title and the risks and rewards of ownership to delivered bullion and commodities pass to the buyer and collection is reasonably assured.

**Trading securities**

Our company's trading securities are reported at fair value, with unrealized gains and losses included in earnings.

**Non-Controlling Interest**

The consolidated financial statements include the accounts of XG Mining (from December 22, 2004). All intercompany accounts and transactions have been eliminated upon consolidation. Our company records a non-controlling interest which reflects the 10% portion of the earnings (loss) of XG Mining allocable to the holders of the minority interest.

**Equipment**

Equipment is recorded at cost and is being amortized over its estimated useful lives using the declining balance method at the following annual rates:

| | |
|---|---|
| Furniture and equipment | 20% |
| Computer equipment | 30% |
| Vehicles | 30% |
| Exploration equipment | 20% |

**Mineral properties and exploration and development costs**

The costs of acquiring mineral rights are capitalized at the date of acquisition. After acquisition, various factors can affect the recoverability of the capitalized costs. If, after review, management concludes that the carrying amount of a mineral property is impaired, it will be written down to estimated fair value. Exploration costs incurred on mineral properties are expensed as incurred. Development costs incurred on proven and probable reserves will be capitalized. Upon commencement of production, capitalized costs will be amortized using the unit-of-production method over the estimated life of the ore body based on proven and probable reserves (which exclude non-recoverable reserves and anticipated processing losses). When our company receives an option payment related to a property, the proceeds of the payment are applied to reduce the carrying value of the exploration asset.

**Long-lived assets**

Long-lived assets held and used by our company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Asset retirement obligations**

Our company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the long-lived assets. Our company also records a corresponding asset which is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying the obligation (asset retirement cost).

**Stock-based compensation**

Our company accounts for share-based compensation under the provisions of ASC 718, “Compensation-Stock Compensation”. Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards to employees and directors and is recognized as an expense over the requisite service period, which is generally the vesting period. The Black-Scholes option valuation model is used to calculate fair value.

Our company accounts for stock compensation arrangements with non-employees in accordance with ASC 718 which require that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. Nonemployee stock-based compensation charges are amortized over the vesting period on a straight-line basis. For stock options granted to non-employees, the fair value of the stock options is estimated using a Black-Scholes valuation model.

**Warrants**

Our company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives.  For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value using the appropriate valuation methodology and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations.  The warrants are presented as a liability because they do not meet the criteria of Accounting Standard Codification (”ASC”) topic 480 for equity classification.  Subsequent changes in the fair value of the warrants are recorded in the consolidated statement of operations.

**Income taxes**

Our company accounts for income taxes under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.  Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.  Under the asset and liability method the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.  A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be recognized.

**Loss per share**

Basic loss per common share is computed using the weighted average number of common shares outstanding during the year.  To calculate diluted loss per share, our company uses the treasury stock method and the *if* converted method.  As of December 31, 2013, there were 964,500 warrants (2012 – 964,500) and 2,489,000 stock options (2012 – 2,639,000) outstanding which have not been included in the weighted average number of common shares outstanding as these were anti-dilutive.

**Foreign exchange**

Our company’s functional currency is the U.S. dollar.  Any monetary assets and liabilities that are in a currency other than the U.S. dollar are translated at the rate prevailing at year end.  Revenue and expenses in a foreign currency are translated at rates that approximate those in effect at the time of translation.  Gains and losses from translation of foreign currency transactions into U.S. dollars are included in current results of operations.

**Financial instruments**

Our company’s financial instruments consist of cash and cash equivalents, trading securities, receivables, accounts payable and accrued liabilities.  It is management’s opinion that our company is not exposed to significant interest, currency or credit risks arising from its financial instruments.  The fair values of these financial instruments approximate their carrying values unless otherwise noted.  Our company has its cash primarily in commercial banks in Toronto, Ontario, Canada.

**Fair value of financial assets and liabilities**

Our company measures the fair value of financial assets and liabilities based on GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Our company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature.  Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor’s carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization.  Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

Financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short term nature of these instruments. Investments in trading securities are classified as held for trading, with unrealized gains and losses being recognized in income.

The following table presents information about the assets that are measured at fair value on a recurring basis as of December 31, 2013, and indicates the fair value hierarchy of the valuation techniques our company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset:

| | December 31, 2013 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 1,305,281 | $ 1,305,281 | $ — | $ — |
| Restricted cash | 221,322 | 221,322 | — | — |
| Marketable securities | 141,030 | 141,030 | — | — |
| Total | $ 1,667,633 | $ 1,667,633 | $ — | $ — |

The fair values of cash and cash equivalents and marketable securities are determined through market, observable and corroborated sources.

**Concentration of credit risk**

The financial instrument which potentially subjects our company to concentration of credit risk is cash. Our company maintains cash in bank accounts that, at times, may exceed federally insured limits. As of December 31, 2013 and December 31, 2012, our company has exceeded the federally insured limit. Our company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts. Our company sells all gold recovered to one licensed export agent in Ghana. There is no contract in place and the company is able to switch suppliers at its discretion.

**Recently adopted accounting pronouncements**

Our company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on our company's consolidated financial position, results of operations or cash flows.

***Fair Value Accounting***

In May 2011, ASC guidance was issued related to disclosures around fair value accounting. The updated guidance clarifies different components of fair value accounting including the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and disclosing quantitative information about the unobservable inputs used in fair value measurements that are categorized in Level 3 of the fair value hierarchy. Our company's January 1, 2012 adoption of the updated guidance had no impact on our company's consolidated financial position, results of operations or cash flows.

***Comprehensive Income***

In June 2011, the ASC guidance was issued related to comprehensive income. Under the updated guidance, an entity will have the option to present the total of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the update required certain disclosure requirements when reporting other comprehensive income. The update does not change the items reported in other comprehensive income or when an item of other comprehensive income must be reclassified to income. Our company adopted the new guidance and its deferral and opted to present the total of comprehensive income in one statement effective for its fiscal year beginning January 1, 2011. The adoption had no impact on our company's consolidated financial position, results of operations or cash flows.

***Reporting of Amounts reclassified out of Accumulated Other Comprehensive Income***

In February 2013, ASC guidance was issued related to items reclassified from *Accumulated Other Comprehensive Income*. The new standard requires either in a single note or parenthetically on the face of the financial statements:(i) the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and (ii) the income statement line items affected by the reclassification. The update is effective for our company's fiscal year beginning January 1, 2013 with early adoption permitted. Our company does not expect the updated guidance to have a significant impact on the consolidated financial position, results of operations or cash flows.

***Disclosures about Offsetting Assets and Liabilities***

In November 2011, ASC guidance was issued related to disclosures about offsetting assets and liabilities. The new standard requires disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The update is effective for our company's fiscal year beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required.

In January 2013, ASC guidance was issued to clarify that the disclosure requirements are limited to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (i) offset in the financial statements or (ii) subject to an enforceable master netting arrangement or similar agreement. Our company does not expect the updated guidance to have an impact on the consolidated financial position, results of operations or cash flows.

***Caution Regarding Forward-Looking Statements***

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or our company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

| **Forward-Looking Statements** | **Assumptions** | **Risk Factors** |
|---|---|---|
| Potential of Xtra-Gold's properties to contain economic gold deposits and other mineral deposits and/or to become near-term and/or low-cost producers | Availability of financing for our projects.<br>Actual results of our exploration, resource goals, metallurgical testing, economic studies and development activities will be favourable.<br>Operating, exploration and development costs will be consistent with our expectations.<br>Ability to retain and attract skilled staff. | Changes in the capital markets impacting availability of future financings.<br>Uncertainties involved in interpreting geological data and confirming title to acquired properties.<br>Possibility of future exploration results, metallurgical test work, economic studies and development activities will not be consistent with our expectations.<br>Variations from the technical reports. |

| **Forward-Looking Statements** | **Assumptions** | **Risk Factors** |
|---|---|---|
| | All requisite regulatory and governmental approvals will be received on a timely basis on terms acceptable to Xtra-Gold, including development of any deposit in compliance with Ghanaian mining law.<br>Social engagement and local acceptance of our projects.<br>Economic, political and industry market conditions will be favourable. | Increases in costs, environmental compliance and changes in environmental, local legislation and regulation, community support and the political and economic climate.<br>Price volatility of gold and other associated commodities impacting the economics of our projects. |
| Potential to expand the NI 43-101 resources on Xtra-Gold's existing projects and achieve its growth targets | Availability of financing.<br>Actual results of our exploration, resource goals, metallurgical testing, economic studies and development activities will be favourable.<br>NI 43-101 technical reports are correct and comprehensive.<br>Operating, exploration and development costs will be consistent with our expectations.<br>Ability to retain and attract skilled staff.<br>All requisite regulatory and governmental approvals will be received on a timely basis on terms acceptable to Xtra-Gold.<br>Social engagement and local acceptance of our projects.<br>Economic, political and industry market conditions will be favourable.<br>Continuance of gold recovery operations. | Changes in the capital markets impacting availability of future financings.<br>Uncertainties involved in interpreting geological data and confirming title to acquired properties.<br>Possibility of future exploration results, metallurgical test work, economic studies and development activities will not be consistent with our expectations.<br>Variations from the technical reports.<br>Increases in costs, environmental compliance and changes in environmental, local legislation and regulation, community support and the political and economic climate.<br>Price volatility of gold and other associated commodities impacting the economics of our projects.<br>Continued cooperation of government bodies to conduct placer operations. |
| Ability to meet working capital needs for fiscal 2014 | Operating and exploration activities and associated costs will be consistent with our current expectations.<br>Capital markets and financing opportunities are favourable to Xtra-Gold.<br>Sale of any investments, if warranted, on acceptable terms.<br>Xtra-Gold continues as a going concern. | Changes in the capital markets impacting availability and timing of future financings on acceptable terms.<br>Increases in costs, environmental compliance and changes in environmental, other local legislation and regulation.<br>Adjustments to currently proposed operating and exploration activities.<br>Price volatility of gold and other commodities impacting sentiment for investment in the resource markets. |

| **Forward-Looking Statements** | **Assumptions** | **Risk Factors** |
|---|---|---|
| Plans, costs, timing and capital for future exploration and development of Xtra-Gold's properties including the potential impact of complying with existing and proposed laws and regulations | Availability of financing for our exploration and development activities.<br>Actual results of our exploration, resource goals, metallurgical testing, economic studies and development activities will be favourable.<br>Operating, exploration and development costs will be consistent with our expectations.<br>Ability to retain and attract skilled staff.<br>All requisite regulatory and governmental approvals will be received on a timely basis on terms acceptable to Xtra-Gold.<br>Economic, political and industry market conditions will be favourable. | Changes in the capital markets impacting availability of future financings.<br>Uncertainties involved in interpreting geological data and confirming title to acquired properties.<br>Possibility of future exploration results, metallurgical test work and economic studies will not be consistent with our expectations.<br>Increases in costs, environmental compliance and changes in environmental, local legislation and regulation and political and economic climate.<br>Price volatility of gold and other commodities impacting the economics of our projects. |
| Management's outlook regarding future trends | Availability of financing.<br>Actual results of our exploration, resource goals, metallurgical testing, economic studies and development activities will be favourable.<br>Prices for gold and other commodities will be favourable to Xtra-Gold.<br>Government regulation in Ghana will support development of any deposit. | Price volatility of gold and other commodities impacting the economics of our projects and appetite for investing in junior gold exploration equities.<br>Possibility of future exploration results, metallurgical test work, economic studies and development activities will not be consistent with our expectations.<br>Increases in costs, environmental compliance and changes in economic, political and industry market climate. |

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Xtra-Gold's ability to predict or control. Please also make reference to those risk factors listed in the "Risk Factors" section above. Readers are cautioned that the above chart is not exhaustive of the factors that may affect the forward-looking statements, and that the underlying assumptions may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause Xtra-Gold's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. Our company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If our company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

**Dated:** March 31, 2014