XTRA-GOLD RESOURCES CORP. AND SUBSIDIARIES
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

December 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Xtra-Gold Resources Corp. and subsidiaries
(An exploration stage company)

We have audited the accompanying consolidated balance sheets of Xtra-Gold Resources Corp. and subsidiaries (an exploration stage company) as at December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended and for the period from the beginning of the exploration stage on January 1, 2003 to December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and for the period from the beginning of the exploration stage on January 1, 2003 to December 31, 2008 in conformity with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

March 24, 2009

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XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)
AS AT DECEMBER 31

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	$ 271,573	$ 334,265
Investment in trading securities, at fair value (cost of $2,208,373 (2007 - $2,160,741)) (Note 4)	1,470,382	2,167,741
Receivables and other	92,942	54,509
Total current assets	1,834,897	2,556,515
Equipment (Note 5)	312,300	260,024
Deferred financing costs (Note 6)	3,850	23,101
Oil and gas investment (Note 7)	40,000	—
Mineral properties (Note 8)	1,662,564	1,625,594
TOTAL ASSETS	$ 3,853,611	$ 4,465,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 535,272	$ 795,231
Total current liabilities	535,272	795,231
Convertible debentures (Note 9)	250,000	900,000
Asset retirement obligation (Note 10)	65,369	28,399
Total liabilities	850,641	1,723,630
Stockholders' equity		
Capital stock (Note 11)		
Authorized		
250,000,000 common shares with a par value of $0.001		
Issued and outstanding		
31,330,602 common shares (2007 – 28,756,359 common shares)	31,331	28,756
Additional paid in capital	12,742,360	9,252,166
Deficit	(1,427,764)	(1,427,764)
Deficit accumulated during the exploration stage	(8,342,957)	(5,111,554)
Total stockholders' equity	3,002,970	2,741,604
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,853,611	$ 4,465,234

History and organization of the Company (Note 1)
Contingency and commitments (Note 16)

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in U.S. Dollars)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2008	Year Ended December 31, 2008	Year Ended December 31, 2007
EXPENSES			
Amortization	$ 117,853	$ 63,674	$ 37,760
Exploration	10,953,724	5,140,679	3,932,845
General and administrative	4,027,901	1,035,369	1,348,898
Write-off of mineral property	26,000	—	—
LOSS BEFORE OTHER ITEMS	(15,125,478)	(6,239,722)	(5,319,503)
OTHER ITEMS			
Foreign exchange gain (loss)	67,285	(424,559)	366,687
Interest expense	(238,086)	(49,113)	(72,240)
Realized gains (losses) on sales of trading securities	196,218	2,585	(94,855)
Net unrealized gain (loss) on trading securities	(856,507)	(857,980)	389,793
Other income	684,174	196,621	163,119
Recovery of gold	6,833,007	4,140,765	2,692,242
Gain (loss) on disposal of property	96,430	—	—
	6,782,521	3,008,319	3,444,746
Loss for the period	$ (8,342,957)	$ (3,231,403)	$ (1,874,757)
Basic and diluted loss per common share		$ (0.11)	$ (0.07)
Basic and diluted weighted average number of common shares outstanding		30,389,400	28,216,728

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2008	Year Ended December 31, 2008	Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	$ (8,342,957)	$ (3,231,403)	$ (1,874,757)
Items not affecting cash:			
Amortization	117,853	63,674	37,760
Amortization of deferred financing costs	42,352	19,251	9,241
Accretion of asset retirement obligation	10,534	—	2,162
Shares issued for services	202,365	196,865	—
Stock-based compensation	599,130	156,444	195,623
Unrealized foreign exchange (gain) loss	(182,634)	385,947	(416,970)
Realized (gain) losses on sale of trading securities	(196,218)	(2,585)	94,855
Purchase of trading securities (Note 4)	(10,786,303)	(2,088,467)	(475,825)
Proceeds on sale of trading securities (Note 4)	8,838,266	1,544,484	1,670,677
Unrealized (gain) loss on trading securities	856,507	857,980	(389,793)
Gain on disposal of property	(95,342)	—	—
Write-off of mineral property	26,000	—	—
Expenses paid by stockholders	2,700	—	—
Changes in non-cash working capital items:			
(Increase) decrease in receivables and other	(84,567)	(38,433)	39,180
Increase (decrease) in accounts payable and accrued liabilities	524,580	(259,959)	557,289
Increase in due to related party	50,000	—	—
Net cash used in operating activities	(8,417,734)	(2,396,202)	(550,558)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures	900,000	—	—
Deferred financing costs	(46,202)	—	—
Repurchase of capital stock	(7,000)	—	—
Issuance of capital stock, net of financing costs	8,229,722	2,489,460	812,540
Net cash provided by financing activities	9,076,520	2,489,460	812,540

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The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2008	Year Ended December 31, 2008	Year Ended December 31, 2007
Continued ...			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(433,976)	(115,950)	(207,712)
Oil and gas property expenditures	(250,137)	(40,000)	—
Acquisition of cash on purchase of subsidiary	11,510	—	—
Acquisition of subsidiary	(25,000)	—	—
Proceeds on disposal of assets	310,390	—	—
Net cashused in investing activities	(387,213)	(155,950)	(207,712)
Change in cash and cash equivalents during the period	271,573	(62,692)	54,270
Cash and cash equivalents, beginning of the period	—	334,265	279,995
Cash and cash equivalents, end of the period	$ 271,573	$ 271,573	$ 334,265

Supplemental disclosure with respect to cash flows (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock					
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Deficit Accumulated During the Exploration Stage**	**Total**
Balance, December 31, 2002	12,364,085	$ 12,364	$ 1,412,842	$ (1,427,764)	$ —	$ (2,558)
Paid on behalf of the Company	—	—	5,258	—	—	5,258
October 31, 2003, issuance of stock for acquisition of subsidiary	50,350,000	50,350	(50,350)	—	—	—
Loss for the year	—	—	—	—	(2,700)	(2,700)
Balance, December 31, 2003	62,714,085	62,714	1,367,750	(1,427,764)	(2,700)	—
March, 2004 - private placement at $0.35 per share	2,000,000	2,000	698,000	—	—	700,000
May, 2004 - private placement at $0.35 per share	2,129,400	2,129	743,161	—	—	745,290
December, 2004 - acquisition of subsidiary via issuance of common stock	2,698,350	2,699	1,616,311	—	—	1,619,010
Share issuance costs	—	—	(76,298)	—	—	(76,298)
Loss for the year	—	—	—	—	(398,533)	(398,533)
Balance, December 31, 2004	69,541,835	69,542	4,348,924	(1,427,764)	(401,233)	2,589,469
May, 2005 – cancellation of shares	(47,000,000)	(47,000)	47,000	—	—	—
June 2005 – for services	10,000	10	5,490	—	—	5,500
June, 2005 – private placement at $0.55 per share	536,218	536	294,384	—	—	294,920
August, 2005 – private placement at $0.55 per share	300,000	300	164,700	—	—	165,000
November, 2005 – private placement at $0.55 per share	1,549,354	1,550	850,595	—	—	852,145

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The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock					
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Deficit Accumulated During the Exploration Stage**	**Total**
continued ...						
Share issuance costs	—	—	(130,714)	—	—	(130,714)
Stock-based compensation	—	—	41,022	—	—	41,022
Loss for the year	—	—	—	—	(272,572)	(272,572)
Balance, December 31, 2005	24,937,407	24,938	5,621,401	(1,427,764)	(673,805)	3,544,770
February, 2006 – conversion of promissory note at $0.55 per share	90,909	91	49,909	—	—	50,000
March, 2006 – exercise of warrants at $0.75 per share	108,500	108	81,267	—	—	81,375
March, 2006 - private placement at $0.70 per share	792,029	792	553,628	—	—	554,420
April, 2006 – exercise of warrants at $0.75 per share	177,200	177	132,723	—	—	132,900
June, 2006 – cancellation of shares	(10,000)	(10)	(6,990)	—	—	(7,000)
June, 2006 - private placement at $0.90 per share	578,112	578	519,722	—	—	520,300
July, 2006 - private placement at $0.90 per share	1,132,000	1,132	1,017,668	—	—	1,018,800
October, 2006 – private placement at $1.10 per share	282,000	282	309,918	—	—	310,200
Share issuance costs	—	—	(240,616)	—	—	(240,616)
Stock-based compensation	—	—	206,041	—	—	206,041
Loss for the year	—	—	—	—	(2,562,992)	(2,562,992)
Balance, December 31, 2006	28,088,157	28,088	8,244,671	(1,427,764)	(3,236,797)	3,608,198

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The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock					
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Deficit Accumulated During the Exploration Stage**	**Total**
continued ...						
October, 2007 – Private placement at $1.35 per unit	668,202	668	901,405	—	—	902,073
Share issuance costs	—	—	(89,533)	—	—	(89,533)
Stock-based compensation	—	—	195,623	—	—	195,623
Loss for the year	—	—	—	—	(1,874,757)	(1,874,757)
Balance, December 31, 2007	28,756,359	28,756	9,252,166	(1,427,764)	(5,111,554)	2,741,604
February, 2008 – Private placement at $1.50 per unit	1,062,000	1,062	1,591,938	—	—	1,593,000
May, 2008 – Exercise of options at $0.75 per share	100,000	100	74,900	—	—	75,000
June, 2008 – Conversion of debentures at $1.00 per share	650,000	650	649,350	—	—	650,000
July, 2008 – Exercise of warrants at $1.50 per share	631,000	631	945,869	—	—	946,500
December, 2008 – For services at $1.50 per share	131,243	132	196,733	—	—	196,865
Share issuance costs	—	—	(125,040)	—	—	(125,040)
Stock-based compensation	—	—	156,444	—	—	156,444
Loss for the year	—	—	—	—	(3,231,403)	(3,231,403)
Balance, December 31, 2008	31,330,602	$ 31,331	$ 12,742,360	$ (1,427,764)	$ (8,342,957)	$ 3,002,970

The accompanying notes are an integral part of these consolidated financial statements.

1. HISTORY AND ORGANIZATION OF THE COMPANY

Silverwing Systems Corporation (the "Company"), a Nevada corporation, was incorporated on September 1, 1998. On June 23, 1999, the Company completed the acquisition of Advertain On-Line Canada Inc. ("Advertain Canada"), a Canadian company operating in Vancouver, British Columbia, Canada. The Company changed its name to Advertain On-Line Inc. ("Advertain") on August 19, 1999. Advertain Canada's business was the operation of a web site, "Advertain.com", whose primary purpose was to distribute entertainment advertising on the Internet.

In May 2001, the Company, being unable to continue its funding of Advertain Canada's operations, decided to abandon its interest in Advertain Canada. On June 15, 2001, the Company sold its investment in Advertain Canada back to Advertain Canada's original shareholder. On June 18, 2001, the Company changed its name from Advertain to RetinaPharma International, Inc. ("RetinaPharma") and became inactive.

In 2003, the Company became a resource exploration company. On October 31, 2003, the Company acquired 100% of the issued and outstanding common stock of Xtra-Gold Resources, Inc. ("XGRI"). XGRI was incorporated in Florida on October 24, 2003. On December 19, 2003, the Company changed its name from RetinaPharma to Xtra-Gold Resources Corp.

In 2004, the Company acquired 100% of the issued and outstanding capital stock of Canadiana Gold Resources Limited ("Canadiana") and 90% of the issued and outstanding capital stock of Goldenrae Mining Company Limited ("Goldenrae"). Both companies are incorporated in Ghana and the remaining 10% of the issued and outstanding capital stock of Goldenrae is held by the Government of Ghana.

On October 20, 2005, XGRI changed its name to Xtra Energy Corp. ("Xtra Energy").

On October 20, 2005, the Company incorporated Xtra Oil & Gas Ltd. ("XOG") in Alberta, Canada.

On December 21, 2005, Canadiana changed its name to Xtra-Gold Exploration Limited ("XG Exploration").

On January 13, 2006, Goldenrae changed its name to Xtra-Gold Mining Limited ("XG Mining").

On March 2, 2006, the Company incorporated Xtra Oil & Gas (Ghana) Limited ("XOGG") in Ghana.

2. GOING CONCERN

The Company is in the exploration stage with respect to its resource properties, incurred a loss of $3,231,403 for the year ended December 31, 2008 and has accumulated a deficit during the exploration stage of $8,342,957. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management of the Company ("Management") is of the opinion that sufficient financing will be obtained from external financing and further share issuances to meet the Company's obligations. At December 31, 2008, the Company has working capital of $1,299,625.

3. SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America ("US GAAP").

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Principles of consolidation

These consolidated financial statements include the accounts of the Company, its 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 its 90% owned subsidiary, XG Mining (from December 22, 2004). All significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with US 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.

Cash and cash equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, 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

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

Oil and natural gas properties

The Company follows the full cost method of accounting for oil and natural gas operations. Under this method, all costs associated with the acquisition of, exploration for and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on estimated proved reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of oil and gas properties are credited to the respective cost centers and a gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of oil and gas attributable to the cost center. Costs of abandoned properties are accounted for as adjustments of capitalized costs and written off to expense.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Oil and natural gas properties (cont'd...)

Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined.

A ceiling test is applied to the proven properties for each cost center and for the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of estimated proved reserves without discount, plus the costs of unproved properties net of impairment. Any excess capitalized costs are written off to expense. Further, the ceiling test for the aggregate of all cost centers is required to include the effects of future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. The calculation of future net revenues is based upon prices, costs and regulations in effect at each year end.

Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience. In general, the Company may write off any unproved property under one or more of the following conditions:

(a) there are no firm plans for further drilling on the unproved property;
(b) negative results were obtained from studies of the unproved properties;
(c) negative results were obtained from studies conducted in the vicinity of the unproved property; or
(d) the remaining term of the unproved property does not allow sufficient time for further studies or drilling.

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%
Mining equipment	20%

Deferred financing costs

Deferred financing costs consist of expenses incurred to obtain funds pursuant to the issuance of the convertible debentures and are being amortized straight-line over the term of the debentures.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Long-lived assets

The Company accounts for long-lived assets under Statements of Financial Accounting Standards Nos. 142 and 144 *"Accounting for Goodwill and Other Intangible Assets"* and *"Accounting for Impairment or Disposal of Long-Lived Assets"* (*"SFAS 142 and 144"*). In accordance with SFAS 142 and 144, long-lived assets held and used by the 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.

Asset retirement obligations

The 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. The 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

The Company calculates the fair value of all stock options granted and records these amounts as compensation expense over the vesting period of the options using the straight-line method. The Black-Scholes option pricing model is used to calculate fair value.

Income taxes

The Company accounts for income taxes under Statements of Financial Accounting Standards No. 109, *"Accounting for Income Taxes"* (*"SFAS 109"*). Under SFAS 109, 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 SFAS 109, 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.

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, the Company uses the treasury stock method and the if converted method as defined in Financial Accounting Standards No. 128, *"Earnings Per Share."* As of December 31, 2008, there were 1,547,881 warrants (2007 – 1,074,511); 1,080,000 stock options (2007 – 1,480,000) and convertible debentures exercisable into 250,000 common shares (2007 – 900,000) outstanding which have not been included in the weighted average number of common shares outstanding as these were anti-dilutive.

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign exchange

The Company's functional currency is the U.S. dollar. The Company does not have any significant non-monetary assets and liabilities that are in a currency other than 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

The Company's financial instruments consist of cash and cash equivalents, trading securities, receivables, accounts payable and accrued liabilities and convertible debentures. It is management's opinion that the 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. The Company has its cash primarily in one commercial bank in Toronto, Ontario, Canada.

Fair Value Measurements

Effective January 1, 2008, the Company implemented Statement of Financial Accounting Standard No. 157, "Fair Value Measurement", or SFAS 157, for the financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157", the Company has elected to defer implementation of SFAS 157 as it relates to the non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until January 1, 2009. The adoption of SFAS 157 to the financial assets and liabilities and non-financial assets and liabilities that are re-measured and reported at fair value at least annually did not have an impact on the financial results.

The following table presents information about the assets that are measured at fair value on a recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques the 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, 2008	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 271,573	$ 271,573	$ —	$ —
Marketable securities	$ 1,470,382	$ 1,470,382	$ —	$ —
Total	$ 1,741,955	$ 1,741,955	$ —	$ —

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Concentration of credit risk

The financial instrument which potentially subjects the Company to concentration of credit risk is cash. The Company maintains cash in bank accounts that, at times, may exceed federally insured limits. As of December 31, 2008 and 2007, the Company has exceeded the federally insured limit. The 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.

Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows.

SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. Early adoption is permitted. The Company is currently reviewing the provisions of SFAS No. 161 and have not yet adopted the statement. However, as the provisions of SFAS No. 161 are only related to disclosure of derivative and hedging activities, the Company does not believe the adoption of SFAS No. 161 will have a material impact on the consolidated operating results, financial position, or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is assessing the potential impact that the adoption of FSP FAS 142-3 may have on the Company's consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not believe that implementation of this standard will have a material impact on the consolidated financial position, results of operations or cash flows.

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent accounting pronouncements (cont'd...)

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. Management has determined that the adoption of FSP EITF 03-6-1 will not have an impact on the Financial Statements.

4. INVESTMENTS IN TRADING SECURITIES

At December 31, 2008, the Company held investments classified as trading securities, which consisted of various equity securities. All trading securities are carried at fair value. As of December 31, 2008, the fair value of trading securities was $1,470,382 (2007 – $2,167,741).

5. EQUIPMENT

	December 31, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 12,416	$ 2,110	$ 10,306	$ 4,058	$ 1,623	$ 2,435
Computer equipment	24,864	14,772	10,092	22,790	6,753	16,037
Mining equipment	316,791	55,456	261,335	208,699	18,590	190,109
Vehicles	76,398	45,831	30,567	76,564	25,121	51,443
	$ 430,469	$ 118,169	$ 312,300	$ 312,111	$ 52,087	$ 260,024

6. DEFERRED FINANCING COSTS

	December 31, 2008	December 31, 2007
Balance, beginning of year	$ 23,101	$ 32,342
Costs incurred	—	—
Amortization	(19,251)	(9,241)
Balance, end of year	$ 3,850	$ 23,101

During the year ended December 31, 2005, the Company paid a finder's fee of $45,000 and other expenses of $1,202 relating to a convertible debenture financing (Note 9).

(Expressed in U.S. Dollars)

7. OIL AND GAS PROPERTY

In April 2008, XOG purchased an 18.9% participating interest in a petroleum and natural gas lease at an Alberta Crown Land sale.

8. MINERAL PROPERTIES

	December 31, 2008	December 31, 2007
Acquisition costs	$ 1,607,729	$ 1,607,729
Asset retirement obligation (Note 10)	54,835	17,865
Total	$ 1,662,564	$ 1,625,594

Kwabeng, Pameng and Apapam Projects

The Company holds three mining leases in Ghana. These mining leases grant the Company surface and mining rights to produce gold in the leased areas until July 26, 2019 with respect to the Kwabeng and Pameng Projects and until December 17, 2015 with respect to the Apapam Project, the latter of which can be renewed for a further 30 year term on application and payment of applicable fees to the Minerals Commission. All gold production will be subject to a 3% production royalty of the net smelter returns (“NSR”).

Banso and Muoso Project

The Company holds a prospecting license on its Banso and Muoso Project in Ghana. This license grants the Company the right to conduct exploratory work to determine whether there are mineable reserves of gold or diamonds in the licensed areas, and currently has been renewed for a further one year term (to October 13, 2009) and is further renewable on application and payment of applicable renewal fees to the Minerals Commission. If mineable reserves of gold or diamonds are discovered, the Company will have the first option to acquire a mining lease.

Option agreement on Edum Banso Project

In October, 2005, XG Exploration entered into an option agreement (the “Option Agreement”) with Adom Mining Limited (“Adom”) to acquire 100% of Adom’s right, title and interest in and to a prospecting license on the Edum Banso concession (the “Edum Banso Project”) located in Ghana. Adom further granted XG Exploration the right to explore, develop, mine and sell mineral products from this concession. The Option Agreement has a five year term. The prospecting license has been renewed for a further one year term (to July 14, 2009) and is further renewable on application and payment of applicable renewal fees to the Minerals Commission.

The consideration paid was $15,000 with additional payments of $5,000 to be paid on the anniversary date of the Option Agreement in each year during the term. Upon the commencement of gold production, an additional $200,000 is to be paid, unless proven and probable reserves are less than 2,000,000 ounces, in which case the payment shall be reduced to $100,000.

Upon successful transfer of title from Adom to XG Exploration, a production royalty (the “Royalty”) of 2% of the net smelter returns shall be paid to Adom; provided, however that in the event that less than 2,000,000 ounces of proven and probable reserves are discovered, then the Royalty shall be 1%. The Royalty can be purchased by XG Exploration for $2,000,000; which will be reduced to $1,000,000 if proven and probable reserves are less than 2,000,000 ounces.

(Expressed in U.S. Dollars)

8. MINERAL PROPERTIES (cont'd...)

Mining lease and prospecting license commitments

The Company is committed to expend, from time to time to the Minerals Commission for an extension of an expiry date of a prospecting license (currently $15,000 for each occurrence) or a mining lease and the Environmental Protection Agency ("EPA") (of Ghana) for processing and certificate fees with respect to EPA permits, an aggregate of less than $500 in connection with annual or ground rent and mining permits to enter upon and gain access to the areas covered by the Company's mining leases and prospecting licenses.

9. CONVERTIBLE DEBENTURES

During the year ended December 31, 2005, the Company completed a convertible debenture financing for gross proceeds of $900,000. The debentures bear interest at 7% per annum, payable quarterly, and the principal balance is repayable by June 30, 2010. Debenture holders have the option to convert any portion of the outstanding principal into common shares at the conversion rate of $1 per share. During the year ended December 31, 2008, convertible debentures totalling $650,000 were converted into 650,000 common shares.

10. ASSET RETIREMENT OBLIGATION

	December 31, 2008	December 31, 2007
Balance, beginning of year	$ 28,399	$ 48,237
Change in obligation	36,970	(22,000)
Accretion expense	—	2,162
Balance, end of year	$ 65,369	$ 28,399

The Company has a legal obligation associated with its mineral properties for clean up costs when work programs are completed.

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $150,000 (2007 - $109,261). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 2%. The life of the mine was extended from 2007 to 2023 during fiscal 2007. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred.

11. CAPITAL STOCK

Cancellation of shares

In May 2005, 47,000,000 common shares owned by two former directors were returned to treasury and cancelled.

In June 2006, 10,000 common shares were returned to the Company in settlement of a dispute and cancelled.

11. CAPITAL STOCK (cont'd...)

Issuance of shares for services

In December 2008, an aggregate of 131,243 common shares were issued to three vendors of the Company's subsidiary, XG Mining to settle outstanding accounts for services at a value of $1.50 per share.

Private placements

In February 2008, the Company issued 1,062,000 units at $1.50 per unit for gross proceeds of $1,593,000. Each unit consisted of one common share and one share purchase warrant enabling the holder to acquire an additional common share at a price of $2.25 per share expiring on July 7, 2009. The Company also issued finder's warrants enabling the holder to acquire up to 84,960 common shares at the same terms as the unit warrants. The fair value of the finder's warrants was $15,136 and calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 4.88%, volatility of 33% and a dividend rate of 0%.

In October 2007, the Company issued 668,202 units at $1.35 per unit for gross proceeds of $902,073. Each unit consisted of one common share and one half of one share purchase warrant. One whole warrant enables the holder to acquire an additional common share at a price of $1.75 for one year which expiry date was extended to January 13, 2009 (expired). The Company also issued finder's warrants enabling the holder to acquire up to 33,410 common shares at the same terms as the unit warrants (expired). The fair value of the finder's warrants was $2,015 and calculated using the Black-Scholes valuation method. The assumptions used were 1 year of expected life, risk free interest rate of 4.50%, volatility of 36% and a dividend rate of 0%.

In October 2006, the Company issued 282,000 common shares at $1.10 per share for gross proceeds of $310,200. For each two shares subscribed for, the purchaser received one share purchase warrant which enables the holder to acquire an additional common share at a price of $1.50 to April 23, 2008 which expiry date was extended to July 13, 2008 (65,000 exercised; 76,000 expired).

In July 2006, the Company issued 1,132,000 common shares at $0.90 per share for gross proceeds of $1,018,800. For each two shares subscribed for, the purchaser received one share purchase warrant which enables the holder to acquire an additional common share at a price of $1.50 to July 31, 2007 which expiry date was extended to July 13, 2008 (566,000 exercised).

In June 2006, the Company issued 578,112 common shares at $0.90 per share for gross proceeds of $520,300. For each two shares subscribed for, the purchaser received one share purchase warrant which enables the holder to acquire an additional common share at a price of $1.50 to June 16, 2007 (expired).

In March 2006, the Company issued 792,029 common shares at $0.70 per share for gross proceeds of $554,420.

In November 2005, the Company issued 1,549,354 common shares at $0.55 per share for gross proceeds of $852,145.

In August 2005, the Company issued 300,000 common shares at $0.55 per share for gross proceeds of $165,000. For each two shares subscribed for, the purchaser received one share purchase warrant which enables the holder to acquire an additional common share at a price of $0.75 to August 31, 2006 (expired).

(Expressed in U.S. Dollars)

11. CAPITAL STOCK (cont'd...)

Private placements (cont'd...)

In June 2005, the Company issued 536,218 common shares at $0.55 per share for gross proceeds of $294,920. For each two shares subscribed for, the purchaser received one share purchase warrant which enables the holder to acquire an additional common share at a price of $0.75 to April 30, 2006 (177,200 exercised; 90,910 expired).

Acquisition of subsidiary

Effective December 22, 2004, the Company acquired 90% of the outstanding shares of XG Mining in exchange for 2,698,350 shares of common stock. In connection with this acquisition, 47,000,000 shares owned by two former officers and directors of the Company were returned to treasury and cancelled.

Stock options

The number of shares reserved for issuance under the Company's equity compensation option plan is 3,000,000. The terms and conditions of any options granted, including the number and type of options, the exercise period, the exercise price and vesting provisions, are determined by the board of directors.

At December 31, 2008, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
108,000	$0.70	April 21, 2009
432,000	$0.70	May 1, 2009
270,000	$0.75	March 5, 2010
270,000	$0.75	March 12, 2010

Stock option transactions and the number of stock options outstanding are summarized as follows:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,480,000	$ 0.75	1,996,000	$ 0.72
Granted	—	—	740,000	0.75
Exercised	(100,000)	0.75	—	—
Cancelled/Expired	(300,000)	0.80	(1,256,000)	0.70
Outstanding, end of year	1,080,000	$ 0.73	1,480,000	$ 0.75
Exercisable, end of year	783,000	$ 0.72	572,995	$ 0.75

The aggregate intrinsic value for options vested as of December 31, 2008 is approximately $Nil (2007 - $355,000) and for total options outstanding is approximately $Nil (2007 - $917,000).

(Expressed in U.S. Dollars)

11. CAPITAL STOCK (cont'd...)

Stock-based compensation

The fair value of stock options granted during the year ended December 31, 2008 totalled $Nil (2007 - $189,063). During the year ended December 31, 2008, $156,444 (2007 - $195,623) was expensed and included in general and administrative expenses. The remaining $83,870 (2007 - $302,377) will be expensed in future periods.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the years ended December 31, 2008 and 2007:

	2008	2007
Risk-free interest rate	—	4.52%
Expected life	—	3 years
Annualized volatility	—	55.30%
Dividend rate	—	0%

The weighted average fair value of options granted was $Nil (2007 - $0.26).

Warrants

At December 31, 2008, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
400,921	$1.75	January 13, 2009 (subsequently expired)
1,146,960	$2.25	July 7, 2009

Warrant transactions and the number of warrants outstanding are summarized as follows:

	December 31, 2008	December 31, 2007
Balance, beginning of year	1,074,511	996,056
Issued	1,146,960	367,511
Exercised	(631,000)	—
Expired	(76,000)	(289,056)
Balance, end of year	1,514,471	1,074,511

(Expressed in U.S. Dollars)

12. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2008 and 2007, the Company entered into the following transactions with related parties:

(a) Paid or accrued consulting fees of $169,957 (2007 - $191,512) to officers of the Company or companies controlled by such officers.

(b) Paid or accrued directors' fees of $28,639 (2007 – $28,579) to directors of the Company or companies controlled by directors.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2008	2008	2007
Cash paid during the period for:			
Interest	$ 187,362	$ 29,862	$ 63,000
Income taxes	$ —	$ —	$ —

The significant non-cash transactions during the year ended December 31, 2008 were the issuance of 84,960 finder's warrants with a value of $15,136 in connection to a private placement (Note 11), the conversion of $650,000 of convertible debentures into 650,000 common shares (Note 9) and the issuance of 131,243 common shares for services rendered.

The significant non-cash transaction during the year ended December 31, 2007 was the issuance of 33,410 finder's warrants with a value of $2,015 in connection with a private placement (Note 11).

(Expressed in U.S. Dollars)

14. DEFERRED INCOME TAXES

Income tax benefits attributable to losses from United States of America operations was $Nil for the years ended December 31, 2008 and 2007, and differed from the amounts computed by applying the United States of America federal income tax rate of 34% to pretax losses from operations as a result of the following:

	2008	2007
Loss for the year	$ (3,231,403)	$ (1,874,757)
Computed "expected" tax (benefit) expense	$ (1,098,677)	$ (637,417)
Non deductible (taxable) items	487,376	(174,452)
Lower effective income tax rate on loss of foreign subsidiaries	55,690	90,383
Valuation allowance	555,611	721,486
Net expected tax (benefit) expense	$ —	$ —

The tax effects of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities are presented below:

	2008	2007
Deferred tax assets:		
Net operating loss carryforwards - US	$ 1,279,002	$ 983,035
Net operating loss carryforwards - Ghana	898,094	648,335
Valuation allowance	(2,177,096)	(1,631,370)
Total deferred tax assets	$ —	$ —

The valuation allowance for deferred tax assets as of December 31, 2008 and 2007 was $2,172,096 and $1,631,370 respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in assessing the realizability of deferred tax assets. In order to fully realize the deferred tax asset attributable to net operating loss carryforwards, the Company will need to generate future taxable income of approximately $6,991,000 prior to the expiration of the net operating loss carryforwards. Of the $6,991,000 of operating loss carryforwards, $3,747,000 is attributable to the US, and expires between 2019 and 2028, and the balance of $3,244,000 is attributable to Ghana and expires between 2009 and 2012.

(Expressed in U.S. Dollars)

15. SEGMENTED INFORMATION

The Company has one reportable segment, being the exploration and development of resource properties.

Geographic information is as follows:

		2008		2007
Capital assets:				
Canada	$	61,307	$	16,089
Ghana		1,953,557		1,869,529
Total capital assets	$	2,014,864	$	1,885,618

16. CONTINGENCY AND COMMITMENTS

a) During the year ended December 31, 2006, a former consultant to the Company's Ghanaian subsidiaries brought an action for damages in the High Court of Ghana, alleging wrongful termination and claiming $172,000 was owed. The Company believed the lawsuit was without merit and vigorously defended against it. No liability has been recorded in connection with the lawsuit. On February 6, 2008, the High Court of Ghana rendered its judgment and dismissed the action with costs to be paid to the Company. The right to appeal by the former consultant expired on May 6, 2008.

b) Effective May 1, 2006, the Company entered into a management consulting agreement with the Vice President, Exploration whereby the Company will pay $4,720 (Cdn$5,000) per month for three years. In the event of termination, without cause, 18 months of fees will be payable. Terms for renewal of this agreement will be negotiated.