

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

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

**DECEMBER 31, 2010**

**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, 2010 and 2009 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, 2010. 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2010 and 2009 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, 2010 in conformity with generally accepted accounting principles in the United States of America.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

March 29, 2011



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

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 10,096,122	\$ 622,670
Investment in trading securities, at fair value (cost of \$78,318 (2009 - \$1,636,628)) (Note 4)	129,141	1,781,594
Receivables and other assets	125,354	46,462
Deposit for equipment (Note 5)	—	151,506
<b>Total current assets</b>	<b>10,350,617</b>	<b>2,602,232</b>
<b>Restricted cash</b> (Note 10)	<b>220,000</b>	<b>—</b>
<b>Equipment</b> (Note 5)	<b>735,426</b>	<b>244,508</b>
<b>Deferred financing costs</b> (Note 6)	<b>—</b>	<b>1,283</b>
<b>Oil and gas investment</b> (Note 7)	<b>—</b>	<b>40,000</b>
<b>Mineral properties</b> (Note 8)	<b>1,713,862</b>	<b>1,662,564</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,019,905</b>	<b>\$ 4,550,587</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 517,236	\$ 233,073
Convertible debentures (Note 9)	—	250,000
<b>Total current liabilities</b>	<b>517,236</b>	<b>483,073</b>
<b>Asset retirement obligation</b> (Note 10)	<b>155,395</b>	<b>71,906</b>
<b>Total liabilities</b>	<b>672,631</b>	<b>554,979</b>
<b>Stockholders' equity</b>		
Capital stock (Note 11)		
Authorized 250,000,000 common shares with a par value of \$0.001		
Issued and outstanding 42,961,179 common shares (2009 – 33,231,477 common shares)	42,961	33,231
Additional paid in capital	26,089,803	14,771,222
Deficit	(1,427,764)	(1,427,764)
Deficit accumulated during the exploration stage	(12,321,365)	(9,304,452)
<b>Total Xtra-Gold Resources Corp. stockholders' equity</b>	<b>12,383,635</b>	<b>4,072,237</b>
Non-controlling interest	(36,361)	(76,629)
<b>Total stockholders' equity</b>	<b>12,347,274</b>	<b>3,995,608</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,019,905</b>	<b>\$ 4,550,587</b>

History and organization of the Company (Note 1)

Contingency and commitments (Note 16)

Subsequent events (Note 17)

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)

	<b>Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2010</b>	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>
<b>EXPENSES</b>			
Amortization	\$ 300,430	\$ 114,785	\$ 67,792
Exploration	15,037,343	2,992,932	1,080,488
General and administrative	6,330,433	1,355,399	957,332
Write-off of mineral property	<u>26,000</u>	<u>—</u>	<u>—</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(21,694,206)</u>	<u>(4,463,116)</u>	<u>(2,105,612)</u>
<b>OTHER ITEMS</b>			
Foreign exchange gain	550,652	179,124	303,243
Interest expense	(241,936)	(1,283)	(2,567)
Realized gains (losses) on sales of trading securities	194,002	170,422	(172,638)
Net unrealized gain (loss) on trading securities	(164,863)	(98,290)	789,934
Other income	856,836	34,104	138,558
Recovery of gold	8,070,359	1,227,394	10,958
Gain on disposal of property	96,430	—	—
Write-off of investment in trading securities	<u>(25,000)</u>	<u>(25,000)</u>	<u>—</u>
	<u>9,336,480</u>	<u>1,486,471</u>	<u>1,067,488</u>
<b>Consolidated loss for the period</b>	<u>(12,357,726)</u>	<u>(2,976,645)</u>	<u>(1,038,124)</u>
<b>Net (income) loss attributable to non-controlling interest</b>	<u>36,361</u>	<u>(40,268)</u>	<u>76,629</u>
<b>Net loss attributable to Xtra-Gold Resources Corp.</b>	<u>\$ (12,321,365)</u>	<u>\$ (3,016,913)</u>	<u>\$ (961,495)</u>
<b>Basic and diluted loss attributable to common shareholders per common share</b>		<u>\$ (0.09)</u>	<u>\$ (0.03)</u>
<b>Basic and diluted weighted average number of common shares outstanding</b>		<u>35,160,827</u>	<u>32,101,330</u>

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)

	<b>Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2010</b>	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the period	\$ (12,357,726)	\$ (2,976,645)	\$ (1,038,124)
Items not affecting cash:			
Amortization	300,430	114,785	67,792
Amortization of deferred financing costs	46,202	1,283	2,567
Accretion of asset retirement obligation	24,262	7,191	6,537
Shares issued for services	202,365	—	—
Stock-based compensation	1,478,689	411,507	468,052
Unrealized foreign exchange (gain)	(467,009)	(37,220)	(247,155)
Realized (gain) losses on sale of trading securities	(194,002)	(170,422)	172,638
Purchase of trading securities	(11,564,690)	—	(778,387)
Proceeds on sale of trading securities	11,916,697	1,746,805	1,331,626
Unrealized (gain) loss on trading securities	164,863	98,290	(789,934)
Gain on disposal of property	(95,342)	—	—
Write-off of mineral property	26,000	—	—
Expenses paid by stockholders	2,700	—	—
Write-off of investment in trading securities	25,000	25,000	—
Changes in non-cash working capital items:			
(Increase) decrease in receivables and other	(116,979)	(78,892)	46,480
Increase (decrease) in accounts payable and accrued liabilities	506,544	284,163	(302,199)
Increase in due to related party	50,000	—	—
Net cash used in operating activities	<u>(10,051,996)</u>	<u>(574,155)</u>	<u>(1,060,107)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of convertible debentures	900,000	—	—
Deferred financing costs	(46,202)	—	—
Repurchase of capital stock	(165,000)	(108,000)	(50,000)
Issuance of capital stock, net of financing costs	<u>20,617,236</u>	<u>10,774,804</u>	<u>1,612,710</u>
Net cash provided by financing activities	<u>21,306,034</u>	<u>10,666,804</u>	<u>1,562,710</u>

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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in U.S. Dollars)

	<b>Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2010</b>	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>
<i>Continued ...</i>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of equipment	(888,173)	(454,197)	—
Deposit on equipment	(151,506)	—	(151,506)
Restricted cash	(220,000)	(220,000)	—
Oil and gas property expenditures	(250,137)	—	—
Acquisition of cash on purchase of subsidiary	11,510	—	—
Acquisition of subsidiary	(25,000)	—	—
Option payment received	25,000	25,000	—
Proceeds on disposal of assets	340,390	30,000	—
Net cash used in investing activities	<u>(1,157,916)</u>	<u>(619,197)</u>	<u>(151,506)</u>
<b>Change in cash and cash equivalents during the period</b>	<b>10,096,122</b>	<b>9,473,452</b>	<b>351,097</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>—</b>	<b>622,670</b>	<b>271,573</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 10,096,122</b>	<b>\$ 10,096,122</b>	<b>\$ 622,670</b>

**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)

	<u>Common Stock</u>			Deficit	Non-Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount	Additional Paid in Capital				
<b>Balance, December 31, 2002</b>	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)
<b>Balance, December 31, 2003</b>	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

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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>		Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount					
<i>Continued ...</i>							
Share issuance costs	—	—	(76,298)	—	—	—	(76,298)
Loss for the year	—	—	—	—	—	(398,533)	(398,533)
<b>Balance, December 31, 2004</b>	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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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>		Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount					
<i>Continued ...</i>							
Share issuance costs	—	—	(130,714)	—	—	—	(130,714)
Stock-based compensation	—	—	41,022	—	—	—	41,022
Loss for the year	—	—	—	—	—	(272,572)	(272,572)
<b>Balance, December 31, 2005</b>	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

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(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>		Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount					
<i>Continued ...</i>							
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)
<b>Balance, December 31, 2006</b>	<b>28,088,157</b>	<b>28,088</b>	<b>8,244,671</b>	<b>(1,427,764)</b>	<b>—</b>	<b>(3,236,797)</b>	<b>3,608,198</b>

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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>					<b>Deficit</b>	
	<b>Number</b>	<b>Amount</b>	<b>Additional</b>	<b>Deficit</b>	<b>Non-</b>	<b>Accumulated</b>	<b>Total</b>
	<b>of Shares</b>		<b>Paid in</b>		<b>Controlling</b>	<b>During the</b>	
			<b>Capital</b>		<b>Interest</b>	<b>Exploration</b>	
						<b>Stage</b>	
<i>Continued ...</i>							
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)
<b>Balance, December 31, 2007</b>	<b>28,756,359</b>	<b>28,756</b>	<b>9,252,166</b>	<b>(1,427,764)</b>	<b>—</b>	<b>(5,111,554)</b>	<b>2,741,604</b>
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

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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>		Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount					
<i>Continued ...</i>							
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)
<b>Balance, December 31, 2008</b>	31,330,602	31,331	12,742,360	(1,427,764)	—	(8,342,957)	3,002,970
April, 2009 – Private placement at \$0.70 per unit	710,000	710	496,290	—	—	—	497,000
May, 2009 – Private placement at \$0.70 per unit	308,000	308	215,292	—	—	—	215,600

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**XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Expressed in U.S. Dollars)

	<u>Common Stock</u>							
	Number of Shares	Amount	Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total	
<i>Continued ...</i>								
May, 2009 – Repurchase and cancellation of shares at \$0.25 per share	(200,000)	(200)	(49,800)	—	—	—	(50,000)	
August, 2009 – Private placement at \$0.80 per unit	376,875	376	301,124	—	—	—	301,500	
December, 2009 – Private placement at \$1.00 per unit	706,000	706	705,294	—	—	—	706,000	
Share issuance costs	—	—	(107,390)	—	—	—	(107,390)	
Stock-based compensation	—	—	468,052	—	—	—	468,052	
Loss for the year	—	—	—	—	(76,629)	(961,495)	(1,038,124)	
<b>Balance, December 31, 2009</b>	<b>33,231,477</b>	<b>\$ 33,231</b>	<b>\$ 14,771,222</b>	<b>\$ (1,427,764)</b>	<b>\$ (76,629)</b>	<b>\$ (9,304,452)</b>	<b>\$ 3,995,608</b>	

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)

	<u>Common Stock</u>			Deficit	Non-Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount	Additional Paid in Capital				
<i>Continued ...</i>							
February, 2010 – Conversion of debenture at \$1.00 per share	250,000	250	249,750	—	—	—	250,000
March, 2010 – Repurchase and cancellation of shares at \$1.33 per share	(80,891)	(80)	(107,920)	—	—	—	(108,000)
April, 2010 – Private placement at \$1.00 per unit	838,000	838	837,162	—	—	—	838,000
June, 2010 – Private placement at \$1.00 per unit	250,000	250	249,750	—	—	—	250,000
August, 2010 – Conversion of warrants at \$1.00 per share	360,000	360	359,640	—	—	—	360,000
November, 2010 – Initial public offering at CAD\$1.35 (USD\$1.33) per share	8,092,593	8,092	10,744,621	—	—	—	10,752,713
December, 2010 – Conversion of warrants at \$1.50 per share	20,000	20	29,980	—	—	—	30,000
Share issuance costs	—	—	(1,455,909)	—	—	—	(1,455,909)
Stock-based compensation	—	—	411,507	—	—	—	411,507
Loss (income) for the year	—	—	—	—	40,268	(3,016,913)	(2,976,645)
<b>Balance, December 31, 2010</b>	<b>42,961,179</b>	<b>\$ 42,961</b>	<b>\$ 26,089,803</b>	<b>\$ (1,427,764)</b>	<b>\$ (36,361)</b>	<b>\$ (12,321,365)</b>	<b>\$ 12,347,274</b>

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

## **XTRA-GOLD RESOURCES CORP.**

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

DECEMBER 31, 2010

### **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. CONTINUANCE OF OPERATIONS**

The Company is in the exploration stage with respect to its resource properties, incurred a loss of \$3,016,913 for the year ended December 31, 2010 and has accumulated a deficit during the exploration stage of \$12,321,365. 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, 2010, the Company has working capital of \$9,833,381, which is sufficient to fund operations for a period greater than twelve months.

### **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").

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**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. The amounts which involve significant estimates include asset retirement obligations and stock-based compensation.

**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, 2010 and 2009, 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.

**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. The 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.

**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.

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

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

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.

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.

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

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 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.

The 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.

**Income taxes**

The 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****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 of December 31, 2010, there were 2,439,320 warrants (2009 – 1,610,038); 1,788,000 stock options (2009 – 972,000) and Nil convertible debentures exercisable into common shares (2009 – 250,000) outstanding which have not been included in the weighted average number of common shares outstanding as these were anti-dilutive.

**Foreign exchange**

The 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**

The Company's financial instruments consist of cash and cash equivalents, trading securities, receivables, restricted cash, 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 government or bank guaranteed deposit certificates or in one commercial bank in Toronto, Ontario, Canada.

**Fair value of financial assets and liabilities**

The Company measures the fair value of financial assets and liabilities based on US GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Effective January 1, 2008, the Company adopted the provisions for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis. Effective January 1, 2009, the Company adopted the provisions for non-financial assets and liabilities that are required to be measured at fair value.

The 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 (loss). 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 (loss) until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income (loss).

Financial instruments, including cash and cash equivalents, receivables, restricted cash, accounts payable and accrued liabilities and convertible debentures 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Fair value of financial assets and liabilities (cont'd...)**

The following table presents information about the assets that are measured at fair value on a recurring basis as of December 31, 2010, 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, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 10,096,122	\$ 10,096,122	\$ —	\$ —
Restricted cash	220,000	220,000	—	—
Marketable securities	129,141	129,141	—	—
Total	\$ 10,445,263	\$ 10,445,263	\$ —	\$ —

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

**Concentration of credit risk**

The financial instrument which potentially subjects the Company to concentration of credit risk is cash and cash equivalents and restricted cash. The Company maintains cash in bank accounts that, at times, may exceed federally insured limits. As of December 31, 2010 and 2009, 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 April 2010, the FASB issued ASU 2010-13, Compensation – Stock Compensation (Topic 718), amending ASC 718. ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which the entity's equity securities trade should not be classified as a liability if it otherwise qualifies as equity. ASU 2010-13 also improves GAAP by improving consistency in financial reporting by eliminating diversity in practice. ASU 2010-13 is effective for interim and annual reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). The Company is currently evaluating the impact of ASU 2010-09, but does not expect its adoption to have a material impact on the Company's financial reporting and disclosures.

In December 2010, the FASB issued ASU 2010-29, which contains updated accounting guidance to clarify the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are issued. This update requires that a company should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update also requires disclosure of the nature and amount of material, nonrecurring pro forma adjustments. The provisions of this update, which are to be applied prospectively, are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The impact of this update on the Company's consolidated financial statements will depend on the size and nature of future business combinations.

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**4. INVESTMENTS IN TRADING SECURITIES**

At December 31, 2010, 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, 2010, the fair value of trading securities was \$129,141 (2009 – \$1,781,594). During the year ended a bond of \$25,000 was written off due to uncertainty regarding collection.

**5. EQUIPMENT**

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 8,358	\$ 4,179	\$ 4,179	\$ 12,416	\$ 4,171	\$ 8,245
Computer equipment	20,274	13,844	6,430	24,864	17,800	7,064
Exploration equipment	781,126	185,464	595,662	304,083	86,352	217,731
Vehicles	155,325	26,170	129,155	76,398	64,930	11,468
	<u>\$ 965,083</u>	<u>\$ 229,657</u>	<u>\$ 735,426</u>	<u>\$ 417,761</u>	<u>\$ 173,253</u>	<u>\$ 244,508</u>

As of December 31, 2009, the Company had made a deposit of \$151,506 to acquire mining equipment, which was delivered during the year ended December 31, 2010.

**6. DEFERRED FINANCING COSTS**

	December 31, 2010	December 31, 2009
Balance, beginning of year	\$ 1,283	\$ 3,850
Amortization	(1,283)	(2,567)
Balance, end of year	<u>\$ —</u>	<u>\$ 1,283</u>

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).

**7. OIL AND GAS INVESTMENT**

In April 2008, XOG purchased an 18.9% participating interest in a petroleum and natural gas lease at an Alberta Crown Land sale. The lease has a five year term, but may be held by continuous production of petroleum and natural gas commencing prior to the expiry of the five year term. During the year ended December 31, 2010, the Company sold its 18.9% participating interest for \$40,000.

**8. MINERAL PROPERTIES**

	December 31, 2010	December 31, 2009
Acquisition costs	\$ 1,607,729	\$ 1,607,729
Asset retirement obligation (Note 10)	131,133	54,835
Option payment received	(25,000)	—
Total	<u>\$ 1,713,862</u>	<u>\$ 1,662,564</u>

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

**Kibi, Kwabeng and Pameng Projects**

The Company holds an individual mining lease over the lease area of each of the Kibi Project, the Kwabeng Project and the Pameng Project, all of which are located in Ghana. Each of these mining leases grant the Company mining rights to produce gold in the respective lease areas until July 26, 2019 with respect to the Kwabeng and Pameng Projects, and until December 17, 2015 with respect to the Kibi Project (formerly known as the Apapam Project), the latter of which can be renewed for up to a further 30 year term on application and payment of applicable fees to the Minerals Commission of Ghana ("Mincom"). All gold production will be subject to a production royalty of the net smelter returns ("NSR") payable to the Government of Ghana.

**Banso and Muoso Projects**

During the year ended December 31, 2010, the Company made an application to Mincom to convert a single prospecting license ("PL") securing its interest in the Banso and Muoso Projects located in Ghana to a mining lease covering the lease area of each of these Projects. This application was approved by Mincom who subsequently made recommendation to the Minister of Lands, Forestry and Mines to grant an individual mining lease for each Project. Subsequent to the year ended December 31, 2010, the Government of Ghana granted two mining leases for these Projects dated January 6, 2011. These mining leases grant the Company mining rights to produce gold in the respective lease areas until January 5, 2025 with respect to the Banso Project and until January 5, 2024 with respect to the Muoso Project. These mining leases supersede the PL previously granted to the Company. Among other things, both mining leases require that the Company (i) pay the Government of Ghana a fee of \$30,000 in consideration of granting of each lease (paid); (ii) pay annual ground rent of GH¢260.00 (USD\$167) for the Banso Project and GH¢280.00 (USD\$180) for the Muoso Project (paid); and (iii) commence commercial production of gold within two years from the date of the mining leases; and (iv) pay a production royalty to the Government of Ghana.

The Company executed a letter of intent with Verbina Resources Inc. ("Verbina") on July 21, 2010 whereby Verbina can acquire an undivided 55% interest in the Company's interest in the mineral rights of the Company's Banso and Muoso concessions ("Concessions") upon completion by Verbina of (i) a cash payment to the Company of \$100,000 upon the date of execution of a definitive binding agreement to be entered into between the parties (the "Effective Date"); (ii) a cash payment to the Company of \$200,000 within 90 days of the Effective Date; (iii) the issuance by Verbina to the Company of 1,000,000 fully paid and non-assessable common shares upon the Effective Date; and (iv) Verbina incurring \$4,500,000 in exploration expenditures ("Expenditures") on the Concessions within five years of the Effective Date, as to (A) \$500,000 being incurred in the first year from the Effective Date; and (B) \$1,000,000 being incurred in each year thereafter. Verbina shall have the right to accelerate the Expenditures at any time.

The Company is to be paid a further \$50,000 by Verbina on the Effective Date whereby Verbina will acquire an immediate 55% interest in the alluvial rights to the Concessions, such purchase being subject to a definitive agreement to be entered into between the parties on or before the Effective Date.

The Company entered into a subsequent letter of intent with Verbina on January 21, 2011 (the "2011 LOI") which supersedes the July 21, 2010 letter of intent noted above.

Pursuant to the 2011 LOI, Verbina can acquire a 55% legal and beneficial interest in the Company's interest in the mineral rights of the Concessions upon the following terms whereby Verbina shall (i) provide the Company, by February 28, 2011, with notice of its satisfactory completion of due diligence of the Concessions, provided on January 21, 2011, and receipt of regulatory acceptance by the TSX Venture Exchange of the 2011 LOI, received on February 16, 2011 (the "Effective Date"); (ii) make a cash payment to the Company of \$425,000 consisting of \$100,000 upon the Effective Date, which payment is pending, and \$325,000 within 90 days of the Effective Date; (iii) issue 1,000,000 fully paid and non-assessable common shares of Verbina to the Company upon the Effective Date (issued subsequent to year end); (iv) incur a total of \$4,425,000 in exploration expenditures on the Concessions within five (5) years of the Effective Date with \$500,000 to be

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

incurred in the first year from the Effective Date and \$1,000,000 in each year thereafter, except that in the final year the exploration expenditures shall be a minimum of \$925,000; and (v) pay to the Company \$300,000 in connection with a Versatile Time-domain Electromagnetic ("VTEM"), Magnetic and Radiometric survey to be flown over the Concessions by the Company, which payment shall be credited toward the \$500,000 in exploration expenditures referred to above in subparagraph (iv).

A definitive binding option agreement shall be entered into between the Company and Verbina which agreement will require approval from the Minister of Lands, Forestry and Mines.

**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 renewal date of the prospecting license expired on December 1, 2010 and Mincom subsequently approved a further one year renewal that will commence from the date of Mincom's letter confirming the renewal (pending).

The consideration paid for the Option Agreement 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 which term has been extended to November 11, 2013. 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.

**Mining lease and prospecting license commitments**

The Company is committed to expend, from time to time fees to Mincom 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 of Ghana ("EPA") for processing and certificate fees with respect to EPA permits, an aggregate of less than \$500 in connection with annual 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 totaling \$650,000 were converted into 650,000 common shares. In February 2010, the convertible debenture of \$250,000 was converted into 250,000 common shares.

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**10. ASSET RETIREMENT OBLIGATION**

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Balance, beginning of year	\$ 71,906	\$ 65,369
Increase in obligation	76,298	—
Accretion expense	7,191	6,537
Balance, end of year	\$ 155,395	\$ 71,906

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 \$220,000 (2009 - \$150,000). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred. The Company has been required by the Ghanaian government to post a bond of US\$220,000 which has been recorded in restricted cash.

**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.

In May 2009, 200,000 common shares were repurchased for \$50,000 and cancelled.

In March 2010, 80,891 common shares were repurchased for \$108,000 and cancelled.

**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 June 2010, the Company issued 250,000 units at \$1.00 per unit for gross proceeds of \$250,000. 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 \$1.50 expiring 18 months from the date of issue. The Company also issued finder's warrants enabling the holders to acquire up to 25,000 common shares at the same terms as the unit warrants. The fair value of the finder's warrants was \$15,091 calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 1.82%, volatility of 99.78% and a dividend rate of 0%.

In April 2010, the Company issued 838,000 units at \$1.00 per unit for gross proceeds of \$838,000. 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 \$1.50 expiring 18 months from the date of issue. The Company also issued finder's warrants enabling the holders to acquire up to 73,800 common shares at the same terms as the unit warrants. The fair value of finder's warrants was \$40,516 calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 2.05%, volatility of 116.59% and a dividend rate of 0%.

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**11. CAPITAL STOCK (cont'd...)****Private placements (cont'd...)**

In December 2009, the Company issued 706,000 units at \$1.00 per unit for gross proceeds of \$706,000. 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 \$1.50 expiring eighteen months from the date of issue. The Company also issued finder's warrants enabling the holders to acquire up to 50,600 common shares at the same terms as the unit warrants. The fair value of finder's warrants was \$20,098 calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 2.05%, volatility of 109% and a dividend rate of 0%

In August 2009, the Company issued 376,875 units at \$0.80 per unit for gross proceeds of \$301,500. 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 \$1.00 expiring two year from the date of issue.

In April and May 2009, the Company issued 1,018,000 units at \$0.70 per unit for gross proceeds of \$712,600. 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 \$1.00 expiring two years from the date of issue.

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.

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**11. CAPITAL STOCK (cont'd...)****Private placements (cont'd...)**

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).

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).

**Initial Public Offering**

In November 2010, the Company completed an initial public offering in Canada (the "IPO") and issued 8,092,593 common shares at CAD\$1.35 per share (USD\$1.33) for gross cash proceeds of CAD\$10,925,001 (USD\$10,752,713). The Company also issued 566,482 broker warrants with a strike price of CAD\$1.35 (US\$1.33) per warrant and a two-year term to maturity. The Company valued the warrants at \$364,248 using the Black-Scholes model with a 90% volatility, 0% dividend and 1.5% interest rate.

**Escrow Shares**

A total of (a) 267,500 shares (the "Escrow Shares") were deposited into escrow at the time of listing of the Company's shares on the Toronto Stock Exchange on November 23, 2010 (the "Listing Date"), following completion of the IPO. The Escrow Shares are released from escrow as to (a) 1/4 of the Escrow Shares on the Listing Date; (b) 1/3 of the remaining Escrow Shares, six months after the Listing Date; (c) 1/2 of the remaining Escrow Shares, 12 months after the Listing Date; and (d) the remaining Escrow Shares, 18 months after the Listing Date. As of December 31, 2010 a total of 200,625 Escrow Shares were held in escrow (December 31, 2009 – nil).

**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 Compensation Committee who makes recommendation to the board of directors for their approval. The maximum term of options granted cannot exceed 10 years.

**Stock options**

At December 31, 2010, the following stock options were outstanding:

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
324,000	\$0.70	May 1, 2013
540,000	\$0.75	May 1, 2013
110,000	\$1.00	February 12, 2012
108,000	\$1.00	January 1, 2013
216,000	\$1.00	February 1, 2013
270,000	\$1.00	May 1, 2013
130,000	\$1.05	May 1, 2013
90,000	\$1.15	July 1, 2013

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**11. CAPITAL STOCK (cont'd...)****Stock options (cont'd...)**

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

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	972,000	\$ 0.73	1,080,000	\$ 0.72
Granted	924,000	1.02	—	—
Exercised	—	—	—	—
Cancelled/Expired	(108,000)	0.70	(108,000)	0.70
Outstanding, end of year	1,788,000	\$ 0.88	972,000	\$ 0.73
Exercisable, end of year	1,490,000	\$ 0.85	972,000	\$ 0.73

The aggregate intrinsic value for options vested as of December 31, 2010 is approximately \$1,312,200 (2009 - \$272,000) and for total options outstanding is approximately \$2,447,200 (2009 - \$284,000).

**Stock-based compensation**

The fair value of stock options granted during the year ended December 31, 2010 totaled \$594,388 (2009 - \$Nil) of which \$411,507 has been included in general and administrative expense for the year. The remaining \$182,881 (2009 - \$Nil) will be expensed in future periods. During the year ended December 31, 2009, the Company extended the life of previously granted options to May 1, 2013 which resulted in an expense of \$468,052 which was included in general and administrative expenses.

The following assumptions were used for the Black-Scholes valuation of stock options granted or extended during the years ended December 31, 2010 and 2009:

	2010	2009
Risk-free interest rate	1.73%	2%
Expected life	3 years	4 years
Annualized volatility	94.28%	108.16%
Forfeiture rate	0%	0%
Dividend rate	—	—

The weighted average fair value of options granted was \$0.63 (2009 - \$Nil).

**Warrants**

At December 31, 2010, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
350,000	\$1.00	April 1, 2011
308,000	\$1.00	May 19, 2011
188,438	\$1.00	August 5, 2011
403,600	\$1.50	June 16, 2011
472,800	\$1.50	October 19, 2011
150,000	\$1.50	December 11, 2011
566,482	\$1.33	November 23, 2013

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

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

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	1,610,038	\$ 1.13	1,514,471	\$ 2.13
Issued	1,209,282	1.42	1,610,038	1.13
Exercised	(380,000)	1.03	—	—
Expired	—	—	(1,514,471)	2.13
Exercisable, end of year	2,439,320	\$ 1.29	1,610,038	\$ 1.13

**12. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2010 and 2009, the Company entered into the following transactions with related parties:

- Paid or accrued consulting fees of \$269,519 (2009 - \$160,927) to officers of the Company or companies controlled by such officers.
- Paid or accrued directors' fees of CAD\$23,333 (USD\$25,647) (2009 – CAD\$21,000 (USD\$18,486)) to directors of the Company or companies controlled by directors.
- Granted 636,000 stock options to directors and officers exercisable at prices of \$1.00 to \$1.15 per share.

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, 2010		
	2010	2009	
Cash paid during the period for:			
Interest	\$ 187,362	\$ —	\$ —
Income taxes	\$ —	\$ —	\$ —

The significant non-cash transactions during the year ended December 31, 2010 included (a) the issuance of 665,282 finder's warrants with a value of \$419,855 in connection with a private placement (Note 11); (b) the conversion of \$250,000 of a convertible debenture into 250,000 common shares; (c) capitalization of \$76,298 in mineral properties related to asset retirement costs.

The significant non-cash transaction during the year ended December 31, 2009 was the issuance of 50,600 finder's warrants with a value of \$20,098 in connection with a private placement (Note 11).

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**14. DEFERRED INCOME TAXES**

Income tax benefits attributable to losses from United States of America operations was \$Nil for the years ended December 31, 2010 and 2009, 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:

	<b>2010</b>	<b>2009</b>
Loss for the year	\$ (2,976,645)	\$ (1,038,124)
Computed "expected" tax (benefit) expense	\$ (1,012,059)	\$ (352,962)
Non deductible (taxable) items	14,502	(130,796)
Lower effective income tax rate on loss of foreign subsidiaries	21,884	68,966
Valuation allowance	<u>975,673</u>	<u>414,792</u>
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:

	<b>2010</b>	<b>2009</b>
Deferred tax assets (liabilities):		
Trading securities	\$ (17,280)	\$ (49,288)
Mineral properties	(401,932)	(401,932)
Net operating loss carryforwards - US	1,675,192	886,528
Net operating loss carryforwards - Ghana	781,650	763,504
Valuation allowance	<u>(2,037,630)</u>	<u>(1,198,812)</u>
Total deferred tax assets	\$ —	\$ —

The valuation allowance for deferred tax assets as of December 31, 2010 and 2009 was \$(2,037,630) and \$(1,198,812) 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 \$8,000,000 prior to the expiration of the net operating loss carryforwards. Of the \$8,000,000 of operating loss carryforwards, \$5,000,000 is attributable to the US, and expires between 2021 and 2030, and the balance of \$3,000,000 is attributable to Ghana and expires between 2011 and 2015.

**15. SEGMENTED INFORMATION**

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

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**15. SEGMENTED INFORMATION (cont'd...)**

Geographic information is as follows:

	2010	2009
Capital assets:		
Canada	\$ 10,609	\$ 94,751
Ghana	<u>2,438,679</u>	<u>1,852,321</u>
Total capital assets	<u>\$ 2,449,288</u>	<u>\$ 1,947,072</u>

**16. CONTINGENCY AND COMMITMENTS**

- a) The Company entered into a management consulting agreement with the Vice President, Exploration, which extends from March 1, 2011 to March 1, 2014, whereby the Company will pay CAD\$12,500 (USD\$12,875) per month for the three year term for providing the majority of his time in consulting services to the Company. In the event of termination, without cause, the Company will be required to pay CAD\$10,000 (USD\$10,300) for each month of early termination.
- b) The Company entered into a renewal of the consulting agreement with Brokton International Ltd. ("Brokton"), a company controlled by the General Manager of the Company's Ghana Operations. Brokton is to be paid \$10,000 per month for fiscal 2011.
- c) Effective January 1, 2011, the Company entered into a management consulting agreement with the President and Chief Executive Officer whereby the Company will pay CAD\$3,000 (USD\$3,090) per month for one year for providing 60% of his time in consulting services to the Company.
- d) The Company leases 1,163 square feet for its corporate office located at Suite 301, 360 Bay Street, Toronto, Ontario. The lease has a 66 month term commencing May 1, 2007, at approximately CAD\$3,868 (USD\$3,874) per month.
- e) The Company was party to a lawsuit for the sum of \$121,336 filed in the Ghanaian courts pertaining to payment for excavation services provided by a subcontractor. No further liability had been recorded in connection with the lawsuit because the Company believed the debt had previously been discharged through the transfer of shares to the subcontractor in 2008. During the year ended December 31, 2010, the lawsuit was settled and the Company agreed to pay \$108,000 in return for the shares previously issued. Upon payment by the Company of \$108,000, the 80,891 shares were returned to the Company and cancelled (Note 11).
- f) In late 2009, the Government of Ghana announced an increase in the gross overriding royalty ("GOR") required payable by all mining companies in the country from 3% to 5%. The industry standard remained at 3% due to stability agreements which were in place with a number of companies. From the commencement of gold recovery in July 2011 to September 2011, the Company paid the GOR at 5% and as of October 2011, the Company began to pay the GOR at 3%. As a result of this decision, there is a potential liability of \$126,500. The Company believes it is unlikely that this amount will become payable.

**17. SUBSEQUENT EVENTS**

- a) Effective January 1, 2011, the Company entered into a management consulting agreement with the President and Chief Executive Officer whereby the Company will pay CAD\$3,000 (USD\$3,090) per month for one year for providing 60% of his time in consulting services to the Company.
- b) The Company entered into a subsequent letter of intent with Verbina on January 21, 2011 (the "2011 LOI") which supersedes the July 21, 2010 letter of intent as disclosed in Note 8.