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

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

DECEMBER 31, 2011

EXCERPTED FROM 2011 10-K ANNUAL REPORT

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders 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) (the "Company") as of December 31, 2011 and 2010, 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, 2011. Xtra-Gold Resources Corp. and subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated 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 Xtra-Gold Resources Corp. and subsidiaries as of December 31, 2011 and 2010, 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, 2011 in conformity with accounting principles generally accepted 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 29, 2012

NEXIA INTERNATIONAL

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

	2011	2010
ASSETS		
Current		
Cash and cash equivalents	$ 4,498,753	$ 10,096,122
Investments, at fair value (cost of $1,870,648 (2010 - $78,318)) (Note 4)	2,531,644	129,141
Due from related party (Note 12)	213,872	—
Receivables and other assets	130,637	125,354
Total current assets	7,374,906	10,350,617
Restricted cash (Note 10)	220,961	220,000
Equipment (Note 5)	1,370,027	735,426
Mineral properties (Note 8)	857,422	1,713,862
TOTAL ASSETS	$ 9,823,316	$ 13,019,905
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 745,860	$ 517,236
Total current liabilities	745,860	517,236
Asset retirement obligation (Note 10)	171,395	155,395
Total liabilities	917,255	672,631
Stockholders' equity		
Capital stock (Note 11)		
Authorized		
250,000,000 common shares with a par value of $0.001		
Issued and outstanding		
44,569,217 common shares (2010 – 42,961,179 common shares)	44,569	42,961
Additional paid in capital	28,441,909	26,089,803
Deficit	(1,427,764)	(1,427,764)
Deficit accumulated during the exploration stage	(17,646,122)	(12,321,365)
Total Xtra-Gold Resources Corp. stockholders' equity	9,412,592	12,383,635
Non-controlling interest	(506,531)	(36,361)
Total stockholders' equity	8,906,061	12,347,274
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,823,316	$ 13,019,905

History and organization of the Company (Note 1)
Continuance of operations (Note 2)
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)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to December 31, 2011	Year Ended December 31, 2011	Year Ended December 31, 2010
EXPENSES (INCOME)			
Amortization	$ 584,843	$ 284,413	$ 114,785
Exploration	21,502,980	6,465,637	2,992,932
General and administrative	7,609,010	1,278,577	1,355,399
Options receipts in excess of property value (Note 8)	(315,000)	(315,000)	—
Write-off of mineral property	26,000	—	—
LOSS BEFORE OTHER ITEMS	(29,407,833)	(7,713,627)	(4,463,116)
OTHER ITEMS			
Foreign exchange gain	566,680	16,028	179,124
Interest expense	(241,936)	—	(1,283)
Realized gains on sales of trading securities	254,319	60,317	170,422
Net unrealized gain (loss) on trading securities	47,210	212,073	(98,290)
Other income	910,730	53,894	34,104
Recovery of gold	9,386,689	1,316,330	1,227,394
Gain on disposal of property	356,488	260,058	—
Write off of investment	(25,000)	—	(25,000)
	11,255,180	1,918,700	1,486,471
Consolidated loss for the period	(18,152,653)	(5,794,927)	(2,976,645)
Net loss (income) attributable to non-controlling interest	506,531	470,170	(40,268)
Net loss attributable to Xtra-Gold Resources Corp.	$ (17,646,122)	$ (5,324,757)	$ (3,016,913)
Basic and diluted loss attributable to common shareholders per common share		$ (0.12)	$ (0.09)
Basic and diluted weighted average number of common shares outstanding		43,815,678	35,160,827

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, 2011	Year Ended December 31, 2011	Year Ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	$ (18,152,653)	$ (5,794,927)	$ (2,976,645)
Items not affecting cash:			
Amortization	584,843	284,413	114,785
Amortization of deferred financing costs	46,202	—	1,283
Accretion of asset retirement obligation	40,262	16,000	7,191
Shares issued for services	202,365	—	—
Stock-based compensation	1,839,928	361,239	411,507
Options receipts in excess of property value	(315,000)	(315,000)	—
Unrealized foreign exchange (gain) loss	(401,956)	63,965	(37,220)
Realized gain on sale of trading securities	(254,319)	(60,317)	(170,422)
Purchase of investments	(13,327,886)	(1,763,196)	—
Proceeds on sale of trading securities	12,157,256	240,559	1,746,805
Unrealized (gain) loss on trading securities	(47,210)	(212,073)	98,290
Gain on disposal of property	(356,488)	(260,058)	—
Write-off of mineral property	26,000	—	—
Expenses paid by stockholders	2,700	—	—
Write-off of investment	25,000	—	25,000
Changes in non-cash working capital items:			
Increase in receivables and other	(336,134)	(219,155)	(78,892)
Increase in accounts payable and accrued liabilities	735,167	228,623	284,163
Increase in due to related party	50,000	—	—
Net cash used in operating activities	(17,481,923)	(7,429,927)	(574,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures	900,000	—	—
Deferred financing costs	(46,202)	—	—
Repurchase of capital stock	(165,000)	—	(108,000)
Issuance of capital stock, net of financing costs	22,609,711	1,992,475	10,774,804
Net cash provided by financing activities	23,298,509	1,992,475	10,666,804

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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, 2011	Year Ended December 31, 2011	Year Ended December 31, 2010
Continued			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(1,835,129)	(946,956)	(454,197)
Deposit on equipment	(151,506)	—	
Restricted cash	(220,961)	(961)	(220,000)
Oil and gas property expenditures	(250,137)	—	—
Acquisition of cash on purchase of subsidiary	11,510	—	—
Acquisition of subsidiary	(25,000)	—	—
Option payments received	525,000	500,000	25,000
Proceeds on disposal of assets	628,390	288,000	30,000
Net cash used in investing activities	(1,317,833)	(159,917)	(619,197)
Change in cash and cash equivalents during the period	4,498,753	(5,597,369)	9,473,452
Cash and cash equivalents, beginning of the period	—	10,096,122	622,670
Cash and cash equivalents, end of the period	$ 4,498,753	$ 4,498,753	$ 10,096,122

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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**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

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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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**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

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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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**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

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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 STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in U.S. Dollars)

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
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
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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The accompanying notes are an integral part of these consolidated financial statements.

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

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
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)
Balance, December 31, 2009	33,231,477	33,231	14,771,222	(1,427,764)	(76,629)	(9,304,452)	3,995,608

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

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

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
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
Income (loss) for the year	—	—	—	—	40,268	(3,016,913)	(2,976,645
Balance, December 31, 2010	42,961,179	42,961	26,089,803	(1,427,764)	(36,361)	(12,321,365)	12,347,274

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

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

	Common Stock						
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Deficit Accumulated During the Exploration Stage**	**Total**
Continued							
Conversion of warrants at $1.50 per share	768,874	769	1,152,542	—	—	—	1,153,311
Conversion of warrants at $1.00 per share	839,164	839	838,325	—	—	—	839,164
Stock-based compensation	—	—	361,239	—	—	—	361,239
Loss for the year	—	—	—	—	(470,170)	(5,324,757)	(5,794,927)
Balance, December 31, 2011	44,569,217	$ 44,569	$ 28,441,909	$ (1,427,764)	$ (506,531)	$ (17,646,122)	$ 8,906,061

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. CONTINUANCE OF OPERATIONS

The Company is in the early stages of exploration and as is common with any exploration company, it raises financing for its exploration and acquisition activities. The Company has incurred a loss of $5,324,757 for the year ended December 31, 2011 and has accumulated a deficit during the exploration stage of $17,646,122. Results for the year ended December 31, 2011 are not necessarily indicative of future results. 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, which is typical for junior exploration companies. 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, 2011, the Company has working capital of $6,629,046, which would not be sufficient to fund the current level of operations for a period greater than twelve months. The Company’s discretionary exploration activities do have considerable scope for flexibility in terms of the amount and timing of exploration expenditures, and expenditures may be adjusted accordingly if requried.

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").

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 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. Significant areas requiring the use of estimates include the carrying value and recoverability of mineral properties, inputs used in the calculation of stock-based compensation and finders' warrants, inputs used in the calculation of the asset retirement obligation, and the valuation allowance applied to deferred income taxes. Actual results could differ from those estimates, and would impact future results of operations and cash flows.

Cash and cash equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, 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.

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

Equipment

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

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

Mineral properties and exploration and development costs

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

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

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

Loss per share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the year. To calculate diluted loss per share, the Company uses the treasury stock method and the if converted method. As of December 31, 2011, there were 566,482 warrants (2010 – 2,439,320) and 2,067,000 stock options (2010 – 1,788,000) 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, investments, receivables, restricted cash, and accounts payable and accrued liabilities. 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, bank bonds or in one commercial bank in Toronto, Ontario, Canada.

(Expressed in U.S. Dollars)

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

Fair value of financial assets and liabilities

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

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

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

The following table presents information about the assets that are measured at fair value on a recurring basis as of December 31, 2011, 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, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 4,498,753	$ 4,498,753	$ —	$ —
Restricted cash	220,961	220,961	—	—
Investments	2,531,644	2,531,644	—	—
Total	$ 7,251,358	$ 7,251,358	$ —	$ —

The fair values of cash and cash equivalents, restricted cash and investments 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, 2011 and 2010, 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. The Company sells all gold recovered to one licensed export agent in Ghana. There is no contract in place and the Company is able to switch suppliers at its discretion.

Recent accounting pronouncements

Recently Adopted Accounting Pronouncements

Business Combinations

In December 2010, the ASC guidance for business combinations was updated to clarify existing guidance which requires a public entity to disclose pro forma 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 period only. The update also expands the supplemental pro forma disclosures required to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. Adoption of the updated guidance, effective for the Company's fiscal year beginning January 1, 2011, had no impact on the Company's consolidated financial position, results of operations or cash flows.

Fair Value Accounting

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for the Company's fiscal year beginning January 1, 2010. The adoption had no impact on the Company's consolidated financial position, results of operations or cash flows.

Also in January 2010, the ASC guidance for fair value measurements and disclosure was updated to require enhanced detail in the level 3 reconciliation. Adoption of the updated guidance, effective for the Company's fiscal year beginning January 1, 2011, had no impact on the Company's consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

Comprehensive Income

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

(Expressed in U.S. Dollars)

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

Fair Value Accounting

In May 2011, the ASC guidance was issued related to disclosures around fair value accounting. The updated guidance clarifies different components of fair value accounting including the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and disclosing quantitative information about the unobservable inputs used in fair value measurements that are categorized in Level 3 of the fair value hierarchy. The update is effective for the Company's fiscal year beginning January 1, 2012. The Company does not expect the updated guidance to have a significant impact on the consolidated financial position, results of operations or cash flows.

4. INVESTMENTS

At December 31, 2011, the Company held investments classified as held for trading, which consisted of various equity securities and interest bearing debt instruments. All held for trading investments are carried at fair value. As of December 31, 2011, the fair value of investments was $2,531,644 (2010 – $129,141).

The following table summarizes the fair value of the Company's investments.

	Investments	
	2011	**2010**
Trading securities	2,022,079	129,141
Interest bearing debt instruments	509,565	—
	2,531,644	129,141

5. EQUIPMENT

	2011			2010		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and equipment	$ 8,358	$ 6,549	$ 1,809	$ 8,358	$ 4,179	$ 4,179
Computer equipment	20,274	18,666	1,608	20,274	13,844	6,430
Exploration equipment	1,464,478	379,843	1,084,635	781,126	185,464	595,662
Vehicles	333,989	52,014	281,975	155,325	26,170	129,155
	$ 1,827,099	$ 457,072	$ 1,370,027	$ 965,083	$ 229,657	$ 735,426

6. DEFERRED FINANCING COSTS

	2011	**2010**
Balance, beginning of year	$ —	$ 1,283
Costs incurred	—	—
Amortization	—	(1,283)
Balance, end of year	$ —	$ —

(Expressed in U.S. Dollars)

6. DEFERRED FINANCING COSTS (cont'd…)

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.

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 for $40,000. 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

		2011		2010
Acquisition costs	$	1,607,729	$	1,607,729
Asset retirement obligation (Note 10)		131,133		131,133
Option payment received		(881,440)		(25,000)
Total	$	857,422	$	1,713,862

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 Project

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 in the March 2011 quarter); (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 in the March 2011 quarter); (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 ("LOI") with Buccaneer Gold Corp. ("Buccaneer"), formerly Verbina Resources Inc., a company related by directors and/or officers in common, on July 21, 2010 whereby Buccaneer could acquire an undivided 55% interest in the Company's interest in the mineral rights of the Company's Banso and Muoso concessions ("Concessions"). On January 21, 2011 the terms of the agreement were amended.

(Expressed in U.S. Dollars)

8. MINERAL PROPERTIES (cont'd…)

Banso and Muoso Project (cont'd…)

Pursuant to the 2011 LOI, Buccaneer can acquire a 55% legal and beneficial interest in the Company's interest in the mineral rights of the Concessions pursuant to the following terms: Buccaneer 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 and $325,000 within 90 days of the Effective Date (received); (iii) issue 1,000,000 fully paid and non-assessable common shares of Buccaneer to the Company upon the Effective Date (issued in the March 2011 quarter); (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 incurred in the first year (completed) 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 Buccaneer which agreement will require approval from the Minister of Lands, Forestry and Mines.

The status of each Buccaneer commitment to the Company in the 2011 LOI is as follows:

Item	Description	Status
(i)	Due diligence completed	Completed
	TSX accepts LOI	Completed
(ii)	Pay $100,000 to the Company	Received by the Company
	Pay a further $325,000 to the Company	Received by the Company
(iii)	Issue 1,000,000 Buccaneer shares to the Company	Received by the Company
(iv)	Spend $4,425,000 on the properties over 5 years	In Progress
(v)	Pay $300,000 to the Company for a VTEM survey	Received by the Company

The 1,000,000 Buccaneer shares received were valued at $411,440 at the date of issuance.

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 prospecting license has been renewed for a two year period expiring on July 21, 2013.

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. Further net smelter royalty payments, based on proven and probable reserves and gold production, was also payable to Adom.

(Expressed in U.S. Dollars)

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

Option agreement on Edum Banso Project (cont'd…)

During August 2011, the Company assigned its interest in the Edum Banso Project to Norman Cay Development Inc. ("NCD") for a cash payment of $125,000, 1,000,000 NCD shares, valued at $260,000 at the date of issuance, and an option payment of $135,000 payable in six months from the date of assignment of the option interest. If NCD did not exercise its six-month option the Project reverted to the Company. Of the payments received, $20,000 reduced the carrying value of the Edum Banso Project on the balance sheet and the balance reduced exploration spending in the third quarter of 2011. A $25,000 finder's fee was paid to introduce the Company to NCD and this fee reduced the gain recorded in the income statement.

Subsequent to December 31, 2011, NCD paid the final $135,000 to the Company.

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 grant of a mining lease and pay 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 bore interest at 7% per annum, payable quarterly, and the principal balance was repayable by June 30, 2010. Debenture holders had 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.

10. ASSET RETIREMENT OBLIGATION

	2011	2010
Balance, beginning of year	$ 155,395	$ 71,906
Change in obligation	—	76,298
Accretion expense	16,000	7,191
Balance, end of year	$ 171,395	$ 155,395

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 (2010 - $220,000). 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 $220,961 (2010 - $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 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%.

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 years 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

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

Private placements (cont'd…)

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).

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 and issued 8,092,593 common shares at CAD$1.35 (USD$1.33) for gross proceeds of CAD$10,925,001 (USD$10,753,149). 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.

(Expressed in U.S. Dollars)

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

Escrow Shares

A total of 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, 2011 a total of 133,750 Escrow Shares were held in escrow (December 31, 2010 – 200,625).

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

On June 30, 2011, the Company adopted a new 10% rolling stock option plan (the "2011 Plan") and cancelled the 2005 equity compensation plan. Pursuant to the 2011 Plan, the Company is entitled to grant options and reserve for issuance up to 10% of the shares issued and outstanding at the time of grant. 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.

At December 31, 2011, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
324,000	$0.70	May 1, 2013
540,000	$0.75	May 1, 2013
110,000	$1.00	February 12, 2012 (1)
108,000	$1.00	January 1, 2013
216,000	$1.00	February 1, 2013
270,000	$1.00	May 1, 2013
90,000	$1.15	July 1, 2013
108,000	$1.85	June 10, 2014
100,000	$1.85	July 1, 2014
145,000	$1.95	March 1, 2014
56,000	$1.98	February 15, 2014

(1) Exercised subsequent to the year ended December 31, 2011

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

(Expressed in U.S. Dollars)

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

	2011		2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of year	1,788,000	$ 0.88	972,000	$ 0.73
Granted	409,000	1.90	924,000	1.02
Exercised	—	—	—	—
Cancelled/Expired	(130,000)	1.05	(108,000)	0.70
Outstanding, end of year	2,067,000	$ 1.07	1,788,000	$ 0.88
Exercisable, end of year	1,749,500	$ 0.99	1,490,000	$ 0.85

The aggregate intrinsic value for options vested as of December 31, 2011 is approximately $452,250 (2010 - $1,312,200) and for total options outstanding is approximately $758,750 (2010 - $2,447,200).

The fair value of stock options granted during the year ended December 31, 2011 totalled $477,193 (December 31, 2010 - $594,388) of which at December 31, 2011 the remaining $202,831 from the 2011 grants and $96,001 from 2010 grants will be expensed in future periods. A total of $361,239 has been included in general and administrative expenses for the year December 31, 2011 (year ended December 31, 2010 - $411,507).

The following assumptions were used for the Black-Scholes valuation of stock options granted or extended during the years ended December 31, 2011 and 2010:

	2011	**2010**
Risk-free interest rate	1.75%	1.73%
Expected life	3 years	3 years
Annualized volatility	95.34	94.28
Dividend rate	—	—

The weighted average fair value of options granted was $1.17 (2010 - $0.63) .

Warrants

At December 31, 2011, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
566,482	$1.33	November 23, 2012

(Expressed in U.S. Dollars)

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

Warrants (cont'd…)

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

	2011			2010		
Balance, beginning of year	2,439,320	$	1.29	1,610,038	$	1.13
Issued	—			1,209,282		1.42
Exercised	(1,608,038)		1.24	(380,000)		1.03
Expired	(264,800)		1.49	—		
Balance, end of year	566,482	$	1.33	2,439,320	$	1.29

12. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2011 and 2010, the Company entered into the following transactions with related parties:

		2011		2010
Consulting fees paid or accrued to officers or their companies	$	351,670	$	269,519
Directors' fees		32,299		25,970
Stock option grants to officers and directors		223,000		636,000
Stock option grant price range	$	1.85 to 1.95	$	1.00 to 1.15

An amount of $213,872 was due from a company with directors and/or officers in common (2010 - $Nil).

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, 2011		2011		2010
Cash paid during the period for:						
Interest	$	187,362	$	—	$	—
Income taxes	$	—	$	—	$	—

The significant non-cash transactions during the year ended December 31, 2011 include the receipt of 1,000,000 Buccaneer common shares per the 2011 LOI (Note 8), and the receipt of 1,000,000 NCD shares valued at $260,000 (Note 8).

(Expressed in U.S. Dollars)

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

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; and (c) capitalization of $76,298 in mineral properties related to asset retirement costs.

14. DEFERRED INCOME TAXES

Income tax benefits attributable to losses from United States of America operations was $Nil for the years ended December 31, 2011 and 2010, 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:

	2011	2010
Loss for the year	$ (5,794,927)	$ (2,976,645)
Computed "expected" tax (benefit) expense	$ (1,970,275)	$ (1,012,059)
Non deductible (taxable) items	4,088	14,502
Lower effective income tax rate on loss of foreign subsidiaries	399,000	21,884
Valuation allowance	1,567,187	975,673
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:

	2011	2010
Deferred tax assets (liabilities):		
Trading securities	$ (224,739)	$ (17,280)
Net operating loss carryforwards - US	1,611,391	1,675,192
Net operating loss carryforwards - Ghana	1,229,724	1,063,043
Valuation allowance	(2,616,376)	(2,720,955)
Total deferred tax assets	$ —	$ —

The valuation allowance for deferred tax assets as of December 31, 2011 and 2010 was $(2,616,376) and $(2,720,955) 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

(Expressed in U.S. Dollars)

14. DEFERRED INCOME TAXES (cont'd…)

operating loss carryforwards, the Company will need to generate future taxable income of approximately $10,000,000 prior to the expiration of the net operating loss carryforwards. Of the $10,000,000 of operating loss carryforwards, $3,600,000 is attributable to the US, and expires between 2012 and 2031, and the balance of $6,400,000 is attributable to Ghana and expires between 2012 and 2016.

15. SEGMENTED INFORMATION

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

Geographic information is as follows:

		2011		2010
Cash and restricted cash:				
Canada	$	4,263,201	$	9,950,180
Ghana		456,513		365,942
Total cash and restricted cash	$	4,719,714	$	10,316,122
Capital assets				
Canada		3,418		10,609
Ghana		2,224,031		2,438,679
Total capital assets	$	2,227,449	$	2,449,288
Total	$	6,947,163	$	12,765,410

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, before September 30, 2012, the Company will be required to pay CAD$10,000 (USD$10,300) for each month of early termination up to September 30, 2012. Thereafter, in the event that the services are terminated at any time after October 1, 2012, then no additional payment will be payable.

b) 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$4,392 (USD$4,306) per month.

c) 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 2010 to September 2010, the Company paid the GOR at 5% and as of October 2010, the Company began to pay the GOR at 3% until July 1, 2011 when the Company again paid the royalty at 5%. As a result of this decision, there is a potential unrecorded liability of $84,300 related to 2010 activities and a recorded liability of $120,000 related to 2011 activities.

17. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2011, NCD paid the Company $135,000 related to an option of the Edum Banso property (see Note 8).