PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ **1,355,495**	$ 4,498,753
Investment in trading securities, at fair value (cost of $1,054,984 (December 31, 2011 - $1,870,648)) (Note 4)	**1,262,466**	2,531,644
Due from related party (Note 9)	—	213,872
Receivables and other assets	**131,034**	130,637
Total current assets	**2,748,995**	7,374,906
Restricted cash (Note 7)	**220,961**	220,961
Equipment (Note 5)	**1,165,292**	1,370,027
Mineral properties (Note 6)	**857,422**	857,422
TOTAL ASSETS	$ **4,992,670**	$ 9,823,316
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ **246,347**	$ 745,860
Total current liabilities	**246,347**	745,860
Asset retirement obligation (Note 7)	**183,395**	171,395
Total liabilities	**429,742**	917,255
Stockholders' equity		
Capital stock (Note 8)		
Authorized		
250,000,000 common shares with a par value of $0.001		
Issued and outstanding		
44,610,917 common shares (December 31, 2011 – 44,569,217 common shares)	**44,611**	44,569
Additional paid in capital	**28,986,228**	28,441,909
Deficit	**(1,427,764)**	(1,427,764)
Deficit accumulated during the exploration stage	**(22,129,468)**	(17,646,122)
Total Xtra-Gold Resources Corp. stockholders' equity	**5,473,607**	9,412,592
Non-controlling interest	**(910,679)**	(506,531)
Total stockholders' equity	**4,562,928**	8,906,061
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ **4,992,670**	$ 9,823,316

History and organization of the Company (Note 1)
Continuance of operations (Note 2)
Contingency and commitments (Note 12)

APPROVED ON BEHALF OF THE BOARD

"Paul Zyla"
Director

"Richard W. Grayston"
Director

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)
(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2012	Three Month Period Ended September 30, 2012	Three Month Period Ended September 30, 2011	Nine Month Period Ended September 30, 2012	Nine Month Period Ended September 30, 2011
EXPENSES					
Amortization	$ 789,578	$ **76,205**	$ 62,469	$ **204,735**	$ 142,035
Exploration	25,833,536	**484,791**	1,391,046	**4,330,556**	4,082,495
General and administrative	8,663,001	**236,542**	374,280	**1,053,991**	951,364
Option receipts in excess of property value	(450,000)	—	—	**(135,000)**	—
Write-off of mineral property	26,000	—	—	—	—
LOSS BEFORE OTHER ITEMS	(34,862,115)	**(797,538)**	(1,827,795)	**(5,454,282)**	(5,175,894)
OTHER ITEMS					
Foreign exchange gain (loss)	679,719	**222,151**	(263,026)	**113,039**	(427,420)
Interest expense	(244,308)	**(670)**	—	**(2,372)**	—
Realized gain on sales of trading securities	848,135	**585,050**	—	**593,816**	—
Net unrealized loss on trading securities	(239,479)	**(56,782)**	(110,942)	**(286,689)**	(177,932)
Other income	1,009,198	**12,697**	(5,644)	**98,468**	18,579
Recovery of gold	9,457,246	—	55,394	**70,557**	1,338,073
Gain on disposal of property or equipment	356,488	—	—	—	260,058
Write-off of investment in trading securities	(25,000)	—	—	—	—
	11,841,999	**762,446**	(324,218)	**586,819**	1,011,358
Net loss for the period	(23,020,116)	**(35,092)**	(2,152,013)	**(4,867,463)**	(4,164,536)
Net loss attributable to non-controlling interest	910,679	**28,591**	137,344	**404,148**	294,821
Net loss attributable to Xtra-Gold Resources Corp.	$ (22,109,437)	$ **(6,501)**	$ (2,014,669)	$ **(4,463,315)**	$ (3,869,715)
Basic and diluted loss attributable to common stockholders per common share		$ (0.00)	$ (0.05)	$ (0.10)	$ (0.09)
Basic and diluted weighted average number of common shares outstanding		**44,650,362**	43,964,595	**44,657,090**	43,600,303

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)
(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2012	Three Month Period Ended September 30, 2012	Three Month Period Ended September 30, 2011	Nine Month Period Ended September 30, 2012	Nine Month Period Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss for the period	$ (23,020,116)	$ **(35,092)**	$ (2,152,013)	$ **(4,867,463)**	$ (4,164,536)
Items not affecting cash:					
Amortization	789,578	**76,205**	62,469	**204,735**	142,035
Amortization of deferred financing costs	46,202	—	—	—	—
Accretion of asset retirement obligation	52,262	**4,000**	4,000	**12,000**	12,000
Shares issued for services	202,365	—	—	—	—
Stock-based compensation	2,309,089	**47,670**	191,381	**469,161**	290,803
Option receipts in excess of property value	(450,000)	—	(340,000)	**(135,000)**	(340,000)
Unrealized foreign exchange (gain) loss	(404,507)	**10,497**	(21,019)	**(2,551)**	11,441
Realized gain on sale of trading securities	(848,135)	**(585,050)**	—	**(593,816)**	—
Purchase of trading securities	(13,411,043)	—	(1,493,809)	**(83,157)**	(1,493,809)
Proceeds on sale of trading securities	13,819,269	**577,295**	—	**1,662,013**	—
Unrealized loss on trading securities	239,479	**56,782**	110,942	**286,689**	177,932
Gain on disposal of property or equipment	(356,488)	—	—	—	(260,058)
Write-off of mineral property	26,000	—	—	—	—
Expenses paid by stockholders	2,700	—	—	—	—
Write-off of investment in trading securities	25,000	—	—	—	—
Changes in non-cash working capital items:					
(Increase) decrease in receivables and other	(122,659)	**(4,082)**	9,273	**213,475**	(2,289)
Increase (decrease) in accounts payable and accrued liabilities	235,654	**(278,422)**	31,814	**(499,513)**	(107,076)
Increase in due to related party	50,000	**18,080**	—	—	—
Net cash used in operating activities	(20,815,350)	**(112,117)**	(3,596,962)	**(3,333,427)**	(5,733,557)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of convertible debentures	900,000	—	—	—	—
Deferred financing costs	(46,202)	—	—	—	—
Repurchase of capital stock	(219,831)	**(50,071)**	—	**(54,831)**	—
Issuance of capital stock, net of financing costs	22,719,711	—	218,675	**110,000**	1,494,739
Net cash provided by (used in) financing activities	23,353,678	**(50,071)**	218,675	**55,169**	1,494,739

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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)
(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2012	Three Month Period Ended September 30, 2012	Three Month Period Ended September 30, 2011	Nine Month Period Ended September 30, 2012	Nine Month Period Ended September 30, 2011
Continued ...					
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of equipment	$ (1,835,129)	$ —	(155,671)	$ —	$ (1,005,467)
Deposit on equipment	(151,506)	—	—	—	—
Restricted cash	(220,961)	—	—	—	(961)
Oil and gas property expenditures	(250,137)	—	—	—	—
Acquisition of cash on purchase of subsidiary	11,510	—	—	—	—
Acquisition of subsidiary	(25,000)	—	—	—	—
Option payment received	660,000	—	100,000	**135,000**	525,000
Proceeds on disposal of assets	628,390	—	—	—	288,000
Net cash provided by (used in) investing activities	(1,182,833)	—	(55,671)	**135,000**	(193,428)
Change in cash and cash equivalents during the period	1,355,495	**(162,188)**	(3,433,958)	**(3,143,258)**	(4,432,246)
Cash and cash equivalents, beginning of the period	—	**1,517,683**	9,097,834	**4,498,753**	10,096,122
Cash and cash equivalents, end of the period	$ 1,355,495	$ **1,355,495**	$ 5,663,876	$ **1,355,495**	$ 5,663,876

Supplemental disclosure with respect to cash flows (Note 10)

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

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

	Common Stock					Deficit	
	Number of Shares	**Amount**	**Additional Paid in Capital**	**Deficit**	**Non-Controlling Interest**	**Accumulated During the Exploration Stage**	**Total**
Balance, December 31, 2010	42,961,179	$ 42,961	$ 26,089,803	$ (1,427,764)	$ (36,361)	$ (12,321,365)	$ 12,347,274
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
January, 2012 – Exercise of options at $1.00 per share	110,000	110	109,890	—	—	—	110,000
Repurchase of shares	(68,300)	(68)	(34,732)	—	—	(20,031)	(54,831)
Stock-based compensation	—	—	469,161	—	—	—	469,161
Loss for the period	—	—	—	—	(404,148)	(4,463,315)	(4,867,463)
Balance, September 30, 2012	44,610,917	$ 44,611	$ 28,986,228	$ (1,427,764)	$ (910,679)	$ (22,129,468)	$ 4,562,928

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 website, "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 $4,463,315 for the nine month-period ended September 30, 2012 and has accumulated a deficit during the exploration stage of $22,109,437. 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 September 30, 2012, the Company has working capital of $2,502,648, which would not be sufficient to fund the current level of operations for a period greater than 12 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 required.

3. SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

The accompanying unaudited financial statements have been prepared by the Company in conformity with accounting principles generally accepted in the United States of America applicable to interim financial information and with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations. In the opinion of Management, the unaudited interim financial statements include all adjustments necessary for the fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in the Company's Form 10-K, filed with the Securities and Exchange Commission. The results of operations for the interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

Cash and cash equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2012 and December 31, 2011, cash and cash equivalents consisted of cash held at financial institutions and highly liquid investments with original maturities of less than three months.

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 September 30, 2012, there were 566,482 warrants (December 31, 2011 – 566,482) and 1,957,000 stock options (December 31, 2011 – 2,067,000) outstanding which have not been included in the weighted average number of common shares outstanding as these were anti-dilutive.

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 due from related party, 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.

(Expressed in U.S. Dollars)

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 September 30, 2012, 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:

	September 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 1,355,495	$ 1,355,495	$ —	$ —
Restricted cash	220,961	220,961	—	—
Trading securities	1,262,466	1,262,466	—	—
Total	$ 2,838,922	$ 2,838,922	$ —	$ —

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

Concentration of credit risk

The financial instrument which potentially subjects our company to concentration of credit risk is cash. The Company maintains cash in bank accounts that, at times, may exceed federally insured limits. As of September 30, 2012 and December 31, 2011, 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.

Recently adopted accounting pronouncements

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's January 1, 2012 adoption of the updated guidance had no impact on the Company's consolidated financial position, results of operations or cash flows.

4. INVESTMENTS IN TRADING SECURITIES

At September 30, 2012, 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 September 30, 2012, the fair value of investments was $1,262,466 (December 31, 2011 – $2,531,644).

(Expressed in U.S. Dollars)

4. INVESTMENTS IN TRADING SECURITIES (cont'd…)

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

	Investments	
	September 30, 2012	**December 31, 2011**
Trading securities	$ 1,262,466	$ 2,022,079
Interest bearing debt instruments	—	509,565
	$ 1,262,466	$ 2,531,644

5. EQUIPMENT

	September 30, 2012			December 31, 2011		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and equipment	$ 8,358	$ 8,049	$ 309	$ 8,358	$ 6,549	$ 1,809
Computer equipment	20,274	19,878	396	20,274	18,666	1,608
Exploration equipment	1,464,478	522,279	942,199	1,464,478	379,843	1,084,635
Vehicles	333,989	111,601	222,388	333,989	52,014	281,975
	$ 1,827,099	$ 661,807	$ 1,165,292	$ 1,827,099	$ 457,072	$ 1,370,027

6. MINERAL PROPERTIES

	September 30, 2012	**December 31, 2011**
Acquisition costs	$ 1,607,729	$ 1,607,729
Asset retirement obligation (Note 7)	131,133	131,133
Option payment received	(881,440)	(881,440)
Total	$ 857,422	$ 857,422

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

(Expressed in U.S. Dollars)

6. MINERAL PROPERTIES (cont'd…)

Banso and Muoso Project (cont'd…)

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 two directors 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.

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.

(Expressed in U.S. Dollars)

6. MINERAL PROPERTIES (cont'd…)

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.

During August 2011, the Company assigned its interest in the Edum Banso Project to Discovery Gold Corporation (DCGD - previously Norman Cay Development Inc.) for a cash payment of $125,000, 1,000,000 DCGD 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 DCGD 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 DCGD and this fee reduced the gain recorded in the statement of operations.

During the three month period ended March 31, 2012, DCGD paid a final option payment of $135,000 to the Company.

Mining lease and prospecting license commitments

The Company is committed to expend, from time to time fees payable (a) to the Minerals Commission for: (i) an extension of an expiry date of a prospecting license (currently $15,000 for each occurrence); (ii) a grant of a mining lease (currently $35,000); (iii) an extension of a mining lease (currently $100,000); (iv) annual operating permits; and (v) the conversion of a reconnaissance license to a prospecting license (currently $20,000); (b) to the Environmental Protection Agency ("EPA") (of Ghana) for: (i) processing and certificate fees with respect to EPA permits; (ii) the issuance of permits before the commencement of any work at a particular concession; or (iii) the posting of a bond in connection with any mining operations undertaken by the Company; (c) for a legal obligation associated with our mineral properties for clean up costs when work programs are completed; and (d) 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 future reconnaissance and prospecting licenses and such other financial commitments arising out of any approved exploration programs in connection therewith.

7. ASSET RETIREMENT OBLIGATION

	September 30, 2012	December 31, 2011
Balance, beginning of period	$ 171,395	$ 155,395
Accretion expense	12,000	16,000
Balance, end of period	$ 183,395	$ 171,395

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

7. ASSET RETIREMENT OBLIGATION (cont'd…)

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 (2011 - $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 which has been recorded in restricted cash with accrued interest ($220,961 at September 30, 2012).

8. 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 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.

During the nine month period ended September 30, 2012, 68,300 common shares were repurchased for $54,831 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. In March 2010, 80,891 of these common shares were repurchased for $108,000 and cancelled.

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%.

8. 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 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.

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 (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.

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 September 30, 2012, there were no Escrow Shares held in escrow (December 31, 2011 – 66,875).

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 September 30, 2012, the following stock options were outstanding:

(Expressed in U.S. Dollars)

8. CAPITAL STOCK (cont'd…)

Stock options (cont'd…)

Number of Options	Exercise Price	Expiry Date
108,000	$0.75	June 7, 2013
42,000	$1.00	June 7, 2013
100,000	$1.85	July 1, 2014
324,000	$0.70	May 1, 2016
270,000	$0.75	March 5, 2017
162,000	$0.75	March 12, 2017
108,000	$1.00	January 25, 2020
216,000	$1.00	February 1, 2020
228,000	$1.00	June 1, 2020
90,000	$1.15	July 1, 2020
56,000	$1.98	February 15, 2021
145,000	$1.95	March 1, 2021
108,000	$1.85	June 10, 2021

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

	September 30, 2012		December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,067,000	$ 1.07	1,788,000	$ 0.88
Granted	—	—	409,000	1.90
Exercised	(110,000)	$ 1.00	—	—
Cancelled/Expired	—	—	(130,000)	1.05
Outstanding, end of period	1,957,000	$ 1.08	2,067,000	$ 1.07
Exercisable, end of period	1,808,000	$ 1.04	1,749,500	$ 0.99

The aggregate intrinsic value for options vested as of September 30, 2012 is approximately $123,860 (December 31, 2011 - $452,250) and for total options outstanding is approximately $123,860 (December 31, 2011 - $758,750).

No stock options were granted during the nine month period ended September 30, 2012. Certain option maturity terms were extended during the period and a non-cash charge of $315,194, reflecting an increase in the expected term to exercise from three years to five years, was booked in the September 2012 quarter. Other significant Black Scholes valuations assumptions regarding the charge include interest at 1.75%, no expected dividends, volatility of 75% and market price at September 30, 2012 of $0.87.

Warrants

At September 30, 2012, the following warrants were outstanding:

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

(Expressed in U.S. Dollars)

8. CAPITAL STOCK (cont'd…)

Warrants (cont'd…)

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

	September 30, 2012		December 31, 2011	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Outstanding, beginning of period	566,482	$ 1.33	2,439,320	$ 1.29
Issued	—	—	—	—
Exercised	—	—	(1,608,038)	1.24
Expired	—	—	(264,800)	1.49
Outstanding, end of period	566,482	$ 1.33	566,482	$ 1.33

9. RELATED PARTY TRANSACTIONS

During the nine month periods ended September 30, 2012 and September 30, 2011, the Company entered into the following transactions with related parties:

	Nine months September 30, 2012	Nine months September 30, 2011
Consulting fees paid or accrued to officers or their companies	$ 278,991	$ 300,577
Directors' fees	$ 25,448	$ 25,970
Stock option grants to officers and directors	—	223,000
Stock option grant price range	$ —	$ 1.90

An amount of $nil was due from a company with two directors in common (December 31, 2011 - $213,872).

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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2012	September 30, 2012	September 30, 2011
Cash paid during the period for:			
Interest	$ 244,308	$ 2,372	$ —
Income taxes	$ —	$ —	$ —

There were no significant non-cash transactions during the nine-month period ended September 30, 2012.

(Expressed in U.S. Dollars)

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

The significant non-cash transaction during the nine months ended September 30, 2011 was the receipt of 1,000,000 Buccaneer common shares per the 2011 LOI valued at $411,440.

11. SEGMENTED INFORMATION

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

Geographic information is as follows:

	September 30, 2012	December 31, 2011
Cash and restricted cash:		
Canada	$ 1,185,891	$ 4,263,201
Ghana	390,565	456,513
Total cash and restricted cash	1,576,456	4,719,714
Capital assets		
Canada	705	3,418
Ghana	2,022,009	2,224,031
Total capital assets	2,022,714	2,227,449
Total	$ 3,599,170	$ 6,947,163

12. CONTINGENCY AND COMMITMENTS

a) 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 which terminates October 31, 2012, at approximately CAD$4,392 (USD$4,319) per month.

b) 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.