

**CROCODILE GOLD CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Stated in United States dollars)**

**As at and for the three and nine months ended September 30, 2011**  
**(Unaudited)**

**CROCODILE GOLD CORP.**

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)  
(Stated in United States dollars, unless otherwise noted)

	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Revenue	7	\$ 30,803,801	\$ 30,646,673	\$ 81,170,137	\$ 41,590,942
<b>Cost of operations</b>					
Operating expenses		(30,453,306)	(23,736,800)	(77,681,138)	(33,152,972)
Royalty expense		(532)	(79,465)	(108,268)	(122,265)
Depletion and depreciation		(2,314,476)	(3,661,888)	(6,083,720)	(5,136,735)
<b>Cost of sales</b>		<b>(32,768,314)</b>	<b>(27,478,153)</b>	<b>(83,873,126)</b>	<b>(38,411,972)</b>
<b>Mine operating earnings (loss)</b>		<b>(1,964,513)</b>	3,168,520	<b>(2,702,989)</b>	3,178,970
<b>Expenses</b>					
Exploration expenses		(1,259,122)	(323,322)	(1,938,966)	(2,716,083)
Care and maintenance expenses		(96,831)	(1,110,123)	(333,662)	(1,216,297)
Professional, consulting and management fees		(1,606,588)	(640,658)	(3,672,610)	(1,878,965)
Other general and administrative expenses		(334,706)	(209,584)	(1,324,766)	(982,142)
Share-based payments	18, 19	(1,470,470)	(759,918)	(3,891,932)	(2,731,265)
Other gains (losses)	11	(192,328)	2,017,897	(76,932)	(853,337)
<b>Operating income (loss)</b>		<b>(6,924,558)</b>	2,142,812	<b>(13,941,857)</b>	(7,199,119)
Finance income	9	1,056,037	239,738	2,645,498	733,582
Finance costs	10	(209,916)	(148,621)	(590,988)	(707,852)
<b>Net income (loss) before tax</b>		<b>(6,078,437)</b>	2,233,929	<b>(11,887,347)</b>	(7,173,389)
Income tax expense		-	-	-	-
<b>Net income (loss)</b>		<b>\$ (6,078,437)</b>	\$ 2,233,929	<b>\$(11,887,347)</b>	\$ (7,173,389)
<b>Other comprehensive income (loss)</b>					
Exchange differences on translating foreign operations		(25,681,048)	17,059,205	(13,938,490)	10,585,103
<b>Comprehensive income (loss)</b>		<b>\$ (31,759,485)</b>	\$ 19,293,134	<b>\$(25,825,837)</b>	\$ 3,411,714
<b>Earnings (loss) per share – basic</b>		\$ (0.02)	\$ 0.01	\$ (0.04)	\$ (0.04)
<b>Earnings (loss) per share – diluted</b>		\$ (0.02)	\$ 0.01	\$ (0.04)	\$ (0.04)
<b>Weighted average number of shares outstanding</b>					
– basic (number)		310,019,884	203,617,362	285,263,252	188,423,934
– diluted (number)		310,019,884	208,879,028	285,263,252	188,423,934

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

**CROCODILE GOLD CORP.**Condensed Interim Consolidated Statements of Financial Position (unaudited)  
(Stated in United States dollars)

	Notes	September 30, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 49,200,630	\$ 22,782,593	\$ 25,434,131
Restricted cash		1,130,501	50,271	47,660
Receivables	16	9,756,496	2,229,773	6,063,064
Inventories	15	8,975,760	8,807,187	8,164,890
Prepaid expenses and other current assets		327,760	1,301,092	40,260
		<u>69,391,147</u>	<u>35,170,916</u>	<u>39,750,005</u>
<b>Non-current assets</b>				
Restricted cash		13,213,466	12,673,216	-
Financial deposits		1,987,837	2,106,761	9,997,211
Exploration and evaluation assets	12	10,790,620	11,424,849	10,434,080
Mine properties	13	129,316,223	92,709,049	25,158,268
Property, plant and equipment	14	38,420,985	43,425,341	31,761,635
Other financial assets		-	-	2,382,995
<b>Total assets</b>		<u>\$ 263,120,278</u>	<u>\$ 197,510,132</u>	<u>\$ 119,484,194</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	22	\$ 14,914,789	\$ 13,985,178	\$ 24,032,552
Provisions	21	3,231,128	766,413	-
Equipment loan	23	283,367	-	-
Finance lease obligations	24	25,392	38,403	123,355
Other financial liabilities		-	-	58,608
		<u>18,454,676</u>	<u>14,789,994</u>	<u>24,214,515</u>
<b>Long-term liabilities</b>				
Equipment loan	23	829,796	-	-
Finance lease obligations	24	-	16,999	48,547
Provisions	21	11,037,968	11,673,332	9,391,035
<b>Total liabilities</b>		<u>30,322,440</u>	<u>26,480,325</u>	<u>33,654,097</u>
<b>Shareholders' equity</b>				
Issued capital	17	268,831,786	185,037,536	99,421,962
Share based payment reserve	18	8,609,367	4,809,749	2,618,448
Currency translation reserve		7,978,284	21,916,774	2,843,653
Retained deficit		(52,621,599)	(40,734,252)	(19,053,966)
<b>Total equity</b>		<u>232,797,838</u>	<u>171,029,807</u>	<u>85,830,097</u>
		<u>\$ 263,120,278</u>	<u>\$ 197,510,132</u>	<u>\$ 119,484,194</u>

APPROVED ON BEHALF OF THE BOARD ON NOVEMBER 9, 2011:

Signed "Chantal Lavoie", DIRECTOR

Signed "George Faught", DIRECTOR

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

# CROCODILE GOLD CORP.

## Condensed Interim Consolidated Statements of Changes in Equity (unaudited) (Stated in United States dollars)

	Share capital	Common shares to be issued	Purchase warrants	Share-based payments reserve	Currency translation reserve	Deficit	Total
Balance at December 31, 2010	\$ 176,982,169	\$ -	\$ 8,055,367	\$ 4,809,749	\$ 21,916,774	\$ (40,734,252)	\$ 171,029,807
Public offering, net of issue costs	82,319,794	-	-	-	-	-	82,319,794
Value of warrants granted on public offering	(8,644,297)	-	8,644,297	-	-	-	-
Exercise of share options	97,735	-	-	-	-	-	97,735
Valuation on exercise of share options	91,374	-	-	(91,374)	-	-	-
Share based payments	-	-	-	1,288,097	-	-	1,288,097
Currency translation adjustments	-	-	-	-	3,213,411	-	3,213,411
Net loss	-	-	-	-	-	(7,009,449)	(7,009,449)
Balance as at March 31, 2011	\$ 250,846,775	\$ -	\$ 16,699,664	\$ 6,006,472	\$ 25,130,185	\$ (47,743,701)	\$ 250,939,395
Public offering, net of issue costs	(35,082)	-	721,360	-	-	-	686,278
Exercise of share options	9,174	-	-	-	-	-	9,174
Valuation on exercise of share options	5,362	-	-	(5,362)	-	-	-
Share-based payments	-	-	-	1,402,083	-	-	1,402,083
Currency translation adjustments	-	-	-	-	8,529,147	-	8,529,147
Net income	-	-	-	-	-	1,200,539	1,200,539
Balance as at June 30, 2011	\$ 250,826,229	\$ -	\$ 17,421,024	\$ 7,403,193	\$ 33,659,332	\$ (46,543,162)	\$ 262,766,616
Public offering, net of issue costs	21,903	-	-	-	-	-	21,903
Share-based payments	211,463	351,167	-	1,206,174	-	-	1,768,804
Currency translation adjustments	-	-	-	-	(25,681,048)	-	(25,681,048)
Net loss	-	-	-	-	-	(6,078,437)	(6,078,437)
Balance as at September 30, 2011	\$ 251,059,595	\$ 351,167	\$ 17,421,024	\$ 8,609,367	\$ 7,978,284	\$ (52,621,599)	\$ 232,797,838
Balance at December 31, 2009	\$ 84,653,918	\$ -	\$ 14,768,044	\$ 2,618,448	\$ 2,843,653	\$ (19,053,966)	\$ 85,830,097
Exercise of share options	324,224	-	-	-	-	-	324,224
Valuation on exercise of share options	183,256	-	-	(183,256)	-	-	-
Exercise of warrants	31,402,806	-	-	-	-	-	31,402,806
Valuation on exercise of warrants	7,217,961	-	(7,217,961)	-	-	-	-
Share based payments	-	-	-	1,280,364	-	-	1,280,364
Expiry of warrants or share options	-	-	(5,228)	5,228	-	-	-
Currency translation adjustments	-	-	-	-	2,828,570	-	2,828,570
Net loss	-	-	-	-	-	(2,882,197)	(2,882,197)
Balance as at March 31, 2010	\$ 123,782,165	\$ -	\$ 7,544,855	\$ 3,720,784	\$ 5,672,223	\$ (21,936,163)	\$ 118,783,864
Public offering, net of issue costs	19,744,752	-	627,214	-	-	-	20,371,966
Exercise of share options	752,650	-	-	-	-	-	752,650
Valuation on exercise of share options	522,327	-	-	(522,327)	-	-	-
Share-based payments	-	-	-	868,898	-	-	868,898
Currency translation adjustments	-	-	-	-	(9,302,672)	-	(9,302,672)
Net loss	-	-	-	-	-	(6,525,121)	(6,525,121)
Balance as at June 30, 2010	\$ 144,801,894	\$ -	\$ 8,172,069	\$ 4,067,355	\$ (3,630,449)	\$ (28,461,284)	\$ 124,949,585
Exercise of share options	1,514,896	-	-	-	-	-	1,514,896
Valuation on exercise of share options	1,052,244	-	-	(1,052,244)	-	-	-
Share-based payments	-	-	-	878,213	-	-	878,213
Currency translation adjustments	-	-	-	-	17,059,205	-	17,059,205
Net income	-	-	-	-	-	2,233,929	2,233,929
Balance as at September 30, 2010	\$ 147,369,034	\$ -	\$ 8,172,069	\$ 3,893,324	\$ 13,428,756	\$ (26,227,355)	\$ 146,635,828

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

## CROCODILE GOLD CORP.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)  
(Stated in United States dollars)

Notes	Nine months ended September 30, 2011	Nine months ended September 30, 2010
<b>Cash provided by (used in) operations:</b>		
Net income (loss)	\$ (11,887,347)	\$ (7,173,389)
Items not involving cash:		
Share-based payments	18,19 3,891,932	2,731,265
Depletion and depreciation	6,083,720	5,136,735
Unwinding discount on rehabilitation provision	10 587,179	401,565
Loss on disposal of property, plant and equipment	285,142	-
Unrealized non-hedge derivative gain	-	-
Other non-cash income and expenses	-	2,298,918
Foreign exchange	-	-
Working capital adjustments:		
Change in amounts receivable	(8,227,236)	(192,877)
Change in inventory	(715,805)	(2,241,567)
Change in prepaid expenses	967,950	(1,020,113)
Change in trade payables and accrued liabilities	1,368,524	3,812,829
<b>Net cash provided by (used in) operating activities</b>	<b>(7,645,941)</b>	<b>3,753,366</b>
<b>Investing activities</b>		
Expenditure on mine development	(32,054,974)	(72,712,727)
Expenditure on property, plant and equipment	(12,493,763)	(166,387)
Increase in restricted cash	(2,514,356)	(11,061,042)
Decrease in reclamation deposits	-	10,048,623
<b>Net cash provided by (used in) investing activities</b>	<b>(47,063,093)</b>	<b>(73,891,533)</b>
<b>Financing activities</b>		
Proceeds from the issue of shares/units	88,012,121	22,491,169
Cost of issue	(5,825,108)	(2,502,938)
Exercise of warrants	-	31,402,806
Exercise of share options	106,909	2,591,769
Equipment loan	1,227,918	-
Repayment of equipment loan	(31,009)	-
Finance lease obligations	(28,905)	(115,426)
<b>Net cash provided by (used in) financing activities</b>	<b>83,461,926</b>	<b>53,867,380</b>
Effect of exchange rate changes on cash	(2,334,855)	321,159
Change in cash and cash equivalents	26,418,037	(15,949,628)
Cash and cash equivalents, beginning of period	22,782,593	25,434,131
<b>Cash and cash equivalents, end of period</b>	<b>\$ 49,200,630</b>	<b>\$ 9,484,503</b>
<b>Cash and equivalents are comprised of:</b>		
Cash in bank	49,200,630	9,484,503
Short-term instruments	-	-
	<b>\$ 49,200,630</b>	<b>\$ 9,484,503</b>

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

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **1. NATURE OF OPERATIONS**

Crocodile Gold Corp. (individually, or collectively with its subsidiaries, as applicable, "Crocodile Gold" or the "Company") is a gold producer engaged in the exploration for, and development and mining of properties located in the Northern Territory of Australia. The Company's primary focus is the Burnside, Union Reefs and Pine Creek Projects in the Northern Territory of Australia. Commercial production from the Company's Union Reefs mill was declared as of June 1, 2010.

The Company is incorporated in Canada with limited liability under the legislation of the Province of Ontario. Crocodile Gold's common shares and the share purchase warrants issued pursuant to the equity financing that closed on March 24, 2011 (see note 17) are listed on the Toronto Stock Exchange ("TSX"). The Company's head office and registered address is 65 Queen Street West, Suite 825, Toronto, Ontario, Canada M5H 2M5 and the Company's address in Australia is 39 Vereker Street, Humpty Doo, Northern Territory.

### **2. BASIS OF PREPARATION**

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS, as issued by the IASB. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of IFRS*. These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures, which are considered material to the understanding of the Company's interim consolidated financial statements and which are normally included in annual consolidated financial statements prepared in accordance with IFRS, are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income (loss), and the statements of financial position and cash flows.

As this is the Company's first year of interim consolidated financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed interim consolidated financial statements under IFRS, as the reader will be able to rely on the annual consolidated financial statements, which will have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The future of the Company is dependent on its ability to generate sufficient operating cash flow from its gold mining assets in the Northern Territory of Australia to fund its ongoing development expenditures and carry out its exploration programs. The Company's expectation is that it will generate positive earnings and cash flows in future years, thereby making the going concern assumption appropriate. However, due to uncertainties surrounding a number of factors, such as the price of gold, actual operating costs, rates of taxation, or foreign currency exchange rates, it is not possible to predict if the forecasts will prove to be accurate. If the going concern assumption was not appropriate for these condensed interim consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **3. RECENT ACCOUNTING PRONOUNCEMENTS**

Recently issued but not adopted accounting guidance includes, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*.

IFRS 9 *Financial Instruments* replaces the guidance in IAS 39 *Financial Instruments Recognition and Measurement* on the classification and measurement of financial assets. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. IFRS 9 also adds guidance on the classification and measurement of financial liabilities. Under IFRS 9, financial liabilities measured at fair value under the fair value option: changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income ("OCI"), with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value. This new standard is applicable, for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 9 on its results of operations and financial position and will adopt IFRS 9 in its financial statements effective from January 1, 2013.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 - *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 11 *Joint Arrangements* provides for reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Under IFRS 11 the choice between equity accounting or proportionate consolidation no longer exists; these entities must now use the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. This new standard is applicable for accounting periods beginning January 1, 2013. The Company does not expect IFRS 11 to have a material impact on the financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 12 to have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **4. PRINCIPLES OF CONSOLIDATION**

The condensed interim consolidated financial statements comprise the condensed interim financial statements of Crocodile Gold Corp. and its subsidiaries. The principal subsidiaries include Crocodile Gold Inc., its wholly-owned Australian subsidiaries Crocodile Gold Australia Pty Ltd. and Crocodile Gold Australia Operations Pty Ltd. (collectively "Crocodile Gold Australia"), and Franc-Or Resources Peru S.A.C.

#### **Subsidiaries**

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

#### **Business Combinations and Goodwill**

On the acquisition of a subsidiary the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed, rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 *'Non-current Assets Held for Sale and Discontinued Operations'*, which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the statement of operations.

All material inter-company transactions are eliminated on consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the Company at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8, *Operating Segments*. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### **5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets and impact decisions as to when exploration and development costs should be capitalized or expensed. Other significant estimates made by the Company include factors affecting the valuation of its inventories, mining properties and related asset retirement obligations, tax accounts, warrants and share-based compensation, and estimated mineral resources and reserves. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **6. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Presentation currency**

The Company's presentation currency is the U.S. dollar ("\$"). The functional currencies of the Company and Crocodile Gold Australia are the Canadian Dollar ("C\$") and Australian Dollar ("A\$"), respectively. These condensed interim consolidated financial statements have been translated to the U.S. dollar in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. These guidelines require that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). Subsequent to the adoption of IFRS, all resulting exchange differences on translation to the presentation currency are reported as a separate component of the statement of changes in equity titled "Currency translation reserve".

#### **b) Foreign currency translation**

In preparing the condensed interim financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to profit or loss. In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

#### **c) Revenue recognition**

Revenue from the sale of metals is brought to account when all of the following conditions are satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the amount of revenue can be measured reliably (i.e. selling prices are known or can be reasonably estimated);
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

#### **d) Interest revenue**

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **e) Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

#### **f) Company as lessee**

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

#### **g) Taxation**

##### *Current tax*

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **g) Taxation (continued)**

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **h) Exploration and evaluation properties**

The acquisition of exploration and evaluation properties is accounted for at initial cost. Mineral property acquisition costs include the cash consideration and the fair market value of shares issued for mineral property interests pursuant to the terms of the relevant agreements.

Exploration and evaluation costs incurred prior to determination of the feasibility of mining operations are expensed as incurred. Upon the determination of the feasibility of mining operations and approval of development by the Company, any capitalized acquisition costs are transferred to properties under development.

The recoverability of the carrying amount of the exploration and evaluation properties is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration, development and mining activities and in which it has an interest, in accordance with industry standards for the current stage of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

#### **i) Deferred mine development expenditures**

Subsequent to determination of the feasibility of mining operations and approval of development by the Company, any capitalized acquisition costs are transferred to properties under development. Deferred mine development acquisition costs include the cash consideration and the fair market value of shares issued for mine acquisition pursuant to the terms of the relevant agreements.

Mine development expenditures are capitalized until the property to which they relate is placed into production, sold, allowed to lapse or abandoned.

Mine development costs, including the cost of decline and access development in underground operations and stripping costs (i.e. overburden and other waste removal) in open pit operations, incurred in the development of a mine before commercial production commences, net of any pre-production revenues, are capitalised as part of the cost of constructing the mine. Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, mine development costs are accounted for separately by reference to the ore from each separate deposit. If, however, the deposits are highly integrated for the purpose of the mine planning, the second and subsequent deposits are regarded as extensions of the first deposit in accounting for mine development costs. In such cases, the initial mine development cost of the second and subsequent pits is considered to be production phase stripping relating to the combined operation. Mine development costs incurred during the production stage of a mine in operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material.

These costs will be amortized using the unit-of-production method over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned, or when an impairment of value has been determined to have occurred.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **i) Deferred mine development expenditures (continued)**

Mine development costs are included as part of mine properties. These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **j) Property, plant and equipment and mine properties**

Upon completion of mine construction, the deferred mine development expenditures are transferred into property, plant and equipment or mine properties. Items of property, plant and equipment and mine properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and the initial estimate of the rehabilitation obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the statement of operations when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation / amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

#### *Depreciation / amortization*

Accumulated mine development costs are depreciated / amortized on a unit-of-production basis over the expected economically recoverable resources of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied.

Items of plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

- Mobile plant and equipment - 2 to 8 years
- Plant and equipment not currently in use and maintained in reasonable condition - 20 years

Capital work-in-progress, which is included in property, plant and equipment, is not depreciated until the assets are ready for their intended use.

#### *Major maintenance and repairs*

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

All other day-to-day maintenance costs are expensed as incurred.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **k) Impairment of non-financial assets**

The Company conducts annual internal assessments of the carrying values of goodwill and indefinite life intangible assets.

The carrying values of exploration and evaluation properties, deferred mine development expenditures, mine properties, and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical basis related to the location of the processing plant.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of operations and comprehensive income so as to reduce the carrying amount to its recoverable amount.

For assets excluding goodwill and indefinite life intangibles, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation / amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations and comprehensive income. Impairment losses recognized in relation to goodwill or indefinite life intangibles are not reversed for subsequent increases in its recoverable amount.

#### **l) Financial assets**

##### *Initial recognition*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and short-term deposits, restricted cash, and trade and other receivables.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income and finance costs in the statement of operations.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **l) Financial assets (continued)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of operations. The losses arising from impairment are recognized in the statement of operations.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - (a) the Company has transferred substantially all the risks and rewards of the asset; or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Impairment of financial assets*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **l) Financial assets (continued)**

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of operations.

#### **m) Financial liabilities**

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdraft, and derivative financial instruments.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of operations.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the statement of operations when the liabilities are derecognized, as well as through the EIR amortisation process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

##### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of operations.

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **m) Financial liabilities (continued)**

##### *Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

#### **n) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, or cashable.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Cash and cash equivalents are held at Canadian and Australian chartered banks or in major financial institutions.

#### **o) Inventories**

Gold bullion, gold in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling the final product. Cost is determined by the weighted average method and comprises raw materials, direct labour, and mine-site overhead expenses, including depreciation and amortization, incurred in producing finished goods.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

#### **p) Provisions**

##### *General*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations net of any reimbursement.

##### *Rehabilitation provision*

The Company records the present value of the estimated costs of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**6. SIGNIFICANT ACCOUNTING POLICIES (continued)****p) Provisions (continued)**

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of operations as a finance cost. Increases or decreases to the obligation as a result of additional disturbances, changes in rehabilitation costs, changes in legal or regulatory requirements, changes in the timing of reclamation, or changes in interest rates will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognised immediately in the statement of operations.

*Employee entitlements*

Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

**q) Earnings (loss) per share**

Basic earnings (loss) per common share has been computed by dividing the earnings applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted earnings (loss) per common share is determined using the treasury stock method under which deemed proceeds on the exercise of share options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would decrease the loss per share. For the three and nine months ended September 30, 2011 and the nine months ended September 30, 2010, all options and warrants were excluded from the calculation of diluted loss per share because they were anti-dilutive. For the three months ended September 30, 2010, 4,417,368 options and 6,720,533 warrants were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

**7. REVENUE**

Nine months ended September 30:

	2011	2010
Gold	\$ 80,660,519	\$ 41,492,310
Silver	509,618	98,632
	<u>\$ 81,170,137</u>	<u>\$ 41,590,942</u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**8. OPERATING SEGMENTS**

For management purposes, the Company is currently organized as a single business unit for the purpose of making decisions regarding resource allocation and performance assessment.

**Geographical information**

The Company operates in three principal geographical areas – Canada, Australia and Peru. The Company's revenue from external customers and information about its non-current assets by geographical location are detailed below:

Revenue from external customers Nine months ended September 30		
	2011	2010
Canada <sup>(1)</sup>	\$ -	\$ -
Australia	81,170,137	41,590,942
Peru	-	-
	<b>\$ 81,170,137</b>	<b>\$ 41,590,942</b>

Non-current assets			
	September 30, 2011	December 31, 2010	January 1, 2010
Canada <sup>(1)</sup>	\$ 1,987,837	\$ -	\$ -
Australia	189,833,261	160,328,357	77,827,793
Peru	1,908,033	2,010,859	1,906,396
	<b>\$ 193,729,131</b>	<b>\$ 162,339,216</b>	<b>\$ 79,734,189</b>

<sup>(1)</sup> Canada includes corporate balances.

**9. FINANCE INCOME**

Nine months ended September 30:

	2011	2010
Cash and cash equivalents	\$ 1,987,586	\$ 355,567
Restricted cash	657,912	373,455
Other interest income	-	4,560
Total interest income for financial assets not designated as at fair value through profit or loss	<b>\$ 2,645,498</b>	<b>\$ 733,582</b>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**10. FINANCE COSTS**

Nine months ended September 30:

	2011	2010
Interest on loans	\$ 1,000	\$ 301,532
Interest on obligations under finance leases	2,809	4,755
Unwinding discount on rehabilitation provision	587,179	401,565
Total interest expense for financial liabilities not classified as at fair value through profit or loss	\$ 590,988	\$ 707,852

**11. OTHER GAINS AND LOSSES**

Nine months ended September 30:

	2011	2010
Loss on disposal of property, plant and equipment	\$ (285,142)	\$ -
Realized gain (loss) on non-hedge derivative	-	1,422,208
Unrealized gain (loss) on non-hedge derivative	-	-
Other income	208,262	3,969
Net foreign exchange gains (losses)	(52)	137,875
Value of warrants issued on credit facility	-	(2,417,389)
Total other gains and (losses)	\$ (76,932)	\$ (853,337)

**12. EXPLORATION AND EVALUATION ASSETS**

	September 30, 2011	December 31, 2010	January 1, 2010
Northern Territories, Australia	\$ 8,882,587	\$ 9,413,990	\$ 8,527,684
Peru	1,908,033	2,010,859	1,906,396
<b>Total exploration and evaluation assets</b>	<b>\$ 10,790,620</b>	<b>\$ 11,424,849</b>	<b>\$ 10,434,080</b>

Movements in carrying amounts:

	Nine months ended September 30, 2011	Year ended December 31, 2010	Year ended January 1, 2010
Balance brought forward	\$ 11,424,849	\$ 10,434,080	\$ -
Exchange adjustment	(634,229)	1,308,427	-
Acquisitions	-	-	12,677,673
Impairments	-	(317,658)	(2,243,593)
	<b>\$ 10,790,620</b>	<b>\$ 11,424,849</b>	<b>\$ 10,434,080</b>

During the year ended December 31, 2010, the Company decided not to exercise its option on properties acquired at a cost of \$317,658, such amount being included in the impairment loss during the second quarter of 2010.

Exploration and evaluation expenditures expensed immediately in the statement of operations for the nine month period ended September 30, 2011 amounted to \$1,938,967 (nine months ended September 30, 2010: \$2,716,083).

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**12. EXPLORATION AND EVALUATION ASSETS (continued)**

On May 30, 2011, the Company and Fortuna Silver Mines Inc. ("Fortuna") announced the signing of an agreement granting Fortuna the exclusive right and option to acquire a 100% interest in the Mario Property of Crocodile Gold, located in the Department of Junin in central Peru. The divestment of the Mario property in Peru allows Company's management to focus exclusively on its Australian operations.

The Option Agreement grants to Fortuna the exclusive right and option to acquire an undivided 100% interest in the Mario Property subject to the following terms:

1. Payment of US\$500,000 on signing of the option agreement (paid in escrow);
2. Payment of US\$500,000 on or before six months from the signing of the option agreement;
3. Payment of US\$500,000 on or before 12 months from the signing of the option agreement; and
4. Payment of US\$2,500,000 on or before 24 months from the signing of the option agreement.

Also, the acquisition of the property by Fortuna is subject to a 1% net smelter return (NSR) royalty on production from the property payable to the Crocodile. Fortuna shall have the right to purchase the NSR royalty from Company at any time during the five year period following the final option payment for the sum of \$3,000,000. The property is also subject to a 2% NSR royalty on production payable to Teck Cominco and a 0.5% NSR royalty on production payable to Socrate Capital Inc., with each royalty in turn subject to certain buy-back provisions.

**13. MINE PROPERTIES**

	September 30, 2011	December 31, 2010	January 1, 2010
Northern Territories, Australia	\$ 129,316,223	\$ 92,709,049	\$ 25,158,268
<b>Total mine properties</b>	<b>\$ 129,316,223</b>	<b>\$ 92,709,049</b>	<b>\$ 25,158,268</b>

Movements in carrying amounts:

	Nine months ended September 30, 2011	Year ended December 31, 2010	Year ended January 1, 2010
Balance brought forward	\$ 92,709,049	\$ 25,158,268	\$ -
Exchange adjustment	(5,233,256)	3,551,920	-
Acquisitions	-	-	4,818,846
Additions	26,099,246	43,780,061	8,173,185
Net pre-commercial production operating costs	(146,599)	20,606,820	3,077,528
Change in rehabilitation provision	1,985,456	1,058,788	9,124,955
Exploration of mine properties	6,399,221	10,003,198	-
Transferred from capital works in progress	11,617,797	5,855,183	-
Depreciation	(4,114,691)	(9,912,433)	(36,246)
Impairments	-	(7,392,756)	-
	<b>\$ 129,316,223</b>	<b>\$ 92,709,049</b>	<b>\$ 25,158,268</b>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**13. MINE PROPERTIES (continued)**

Mines under construction are not depreciated until construction is completed.

Until May 31, 2010, all of the Company's Australian operations were pre-commercial production. As a result, operating costs prior to May 31, 2010 of \$53,792,047, less proceeds on the sale of gold of \$30,207,092, were capitalized to mine properties. Commercial production was declared at the Union Reef's mill on June 1, 2010; however, activities at the Company's Tom's Gully mine remained pre-commercial in nature and an additional \$947,595 of costs were capitalized until August 31, 2010 when the decision was made to defer the startup of the Tom's Gully operation. Costs incurred at Tom's Gully since August 31, 2010 have been expensed, except in December 2010 when operating costs of \$1,433,349, less proceeds on the sale of gold recovered of \$352,428, were capitalized to mine properties.

During the year ended December 31, 2010, the Company recorded an impairment charge of \$7,392,756 against the Brock's Creek underground mine. Mining at Brock's Creek ended in April 2011.

**14. PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2011	December 31, 2010	January 1, 2010
Buildings, at cost	\$ 5,208,845	\$ 5,244,510	\$ 4,540,377
Less: Accumulated depreciation	<u>(564,483)</u>	<u>(485,240)</u>	<u>(80,350)</u>
	<u>\$ 4,644,362</u>	<u>\$ 4,759,270</u>	<u>\$ 4,460,027</u>
Plant and equipment, at cost	\$ 32,035,827	\$ 30,126,627	\$ 24,667,221
Less: Accumulated depreciation	<u>(4,311,948)</u>	<u>(3,498,262)</u>	<u>(520,680)</u>
	<u>\$ 27,723,879</u>	<u>\$ 26,628,365</u>	<u>\$ 24,146,541</u>
Motor vehicles, at cost	\$ 1,448,860	\$ 1,079,542	\$ 622,897
Less: Accumulated depreciation	<u>(454,443)</u>	<u>(437,343)</u>	<u>(245,543)</u>
	<u>\$ 994,417</u>	<u>\$ 642,199</u>	<u>\$ 377,354</u>
Leased equipment, at cost	\$ 222,268	\$ 235,565	\$ 206,421
Less: Accumulated depreciation	<u>(26,033)</u>	<u>(24,395)</u>	<u>(625)</u>
	<u>\$ 196,235</u>	<u>\$ 211,170</u>	<u>\$ 205,796</u>
Capital works-in-progress	\$ 4,862,092	\$ 11,184,337	\$ 2,571,917
<b>Total property, plant and equipment</b>	<u><b>\$ 38,420,985</b></u>	<u><b>\$ 43,425,341</b></u>	<u><b>\$ 31,761,635</b></u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

Movements in carrying amounts:

	Nine months ended September 30, 2011	Year ended December 31, 2010	Year ended January 1, 2010
<b>Buildings</b>			
Balance brought forward	\$ 4,759,270	\$ 4,460,027	\$ -
Exchange Adjustment	(268,652)	629,680	-
Additions	-	602,015	4,540,377
Transfers	293,214	-	-
Disposals	(29,495)	-	-
Impairment Brocks Creek assets	-	(240,878)	-
Depreciation expense	(109,975)	(691,574)	(80,350)
Carrying amount	<u>\$ 4,644,362</u>	<u>\$ 4,759,270</u>	<u>\$ 4,460,027</u>
<b>Plant and Equipment</b>			
Balance brought forward	\$ 26,628,365	\$ 24,146,541	\$ -
Exchange Adjustment	(1,503,122)	3,400,332	-
Additions	1,223,121	662,344	24,667,221
Transfers	6,973,325	3,423,778	-
Disposals	(4,479,276)	(1,508)	-
Impairment Brocks Creek assets	-	(909,466)	-
Depreciation expense	(1,118,534)	(4,093,656)	(520,680)
Carrying amount	<u>\$ 27,723,879</u>	<u>\$ 26,628,365</u>	<u>\$ 24,146,541</u>
<b>Motor Vehicles</b>			
Balance brought forward	\$ 642,199	\$ 377,354	\$ -
Exchange Adjustment	(36,252)	53,276	-
Additions	-	477,344	622,897
Transfers	577,050	1,898	-
Disposals	(47,827)	(31,863)	-
Impairment Brocks Creek assets	-	-	-
Depreciation expense	(140,753)	(235,810)	(245,543)
Carrying amount	<u>\$ 994,417</u>	<u>\$ 642,199</u>	<u>\$ 377,354</u>
<b>Leased Equipment</b>			
Balance brought forward	\$ 211,170	\$ 205,796	\$ -
Exchange Adjustment	(11,920)	29,055	-
Additions	-	-	206,421
Transfers	-	-	-
Disposals	-	-	-
Depreciation expense	(3,015)	(23,681)	(625)
Carrying amount	<u>\$ 196,235</u>	<u>\$ 211,170</u>	<u>\$ 205,796</u>
<b>Capital Works in Progress</b>			
Balance brought forward	\$ 11,184,337	\$ 2,571,917	\$ -
Exchange Adjustment	(631,337)	602,012	-
Additions	14,577,502	19,594,716	2,571,917
Transfers	(20,268,410)	(11,584,308)	-
Disposals	-	-	-
Depreciation expense	-	-	-
Carrying amount	<u>\$ 4,862,092</u>	<u>\$ 11,184,337</u>	<u>\$ 2,571,917</u>
	<u>\$ 38,420,985</u>	<u>\$ 43,425,341</u>	<u>\$ 31,761,635</u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**15. INVENTORIES**

	September 30, 2011	December 31, 2010	January 1, 2010
Gold bullion	\$ 293,639	\$ 165,595	\$ 190,680
Gold in circuit	2,775,292	3,226,704	1,239,943
Ore stockpiles	1,568,873	1,761,264	6,111,183
Materials and supplies	4,337,956	3,653,624	623,084
	<u>\$ 8,975,760</u>	<u>\$ 8,807,187</u>	<u>\$ 8,164,890</u>

Portions of ore stockpiles, gold in circuit and gold bullion are carried at net realizable value. Impairment charges to reduce inventory to net realizable value during the pre-commercial production period to May 31, 2010 were charged to mine properties. Impairment charges since commercial production was declared June 1, 2010 are recorded as an operating expense on the statement of operations and comprehensive income.

**16. RECEIVABLES**

	September 30, 2011	December 31, 2010	January 1, 2010
Sales taxes receivable (Australian and Canadian)	\$ 3,241,231	\$ 1,790,170	\$ 5,293,550
Other receivables	6,515,265	439,603	769,514
	<u>\$ 9,756,496</u>	<u>\$ 2,229,773</u>	<u>\$ 6,063,064</u>

Receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

Sales are settled at the time of delivery; there are therefore no doubtful debts. In determining the recoverability of other receivables, the Company considers any change in the credit quality of the receivable. The concentration of credit risk is limited due to the nature of the counterparties involved.

**17. ISSUED CAPITAL**

The Company is authorized to issue an unlimited number of common shares.

Issued capital comprises:

	September 30, 2011	December 31, 2010	January 1, 2010
310,027,546 fully paid common shares (December 31, 2010: 228,722,442 & January 1, 2010: 159,011,395)	\$ 251,059,595	\$ 176,982,169	\$ 84,653,918
167,903 common shares to be issued (December 31, 2010: nil & January 1, 2010: nil)	351,167	-	-
69,499,116 common share purchase warrants (December 31, 2010: 22,924,116 & January 1, 2010: 45,976,516)	17,421,024	8,055,367	14,768,044
	<u>\$ 268,831,786</u>	<u>\$ 185,037,536</u>	<u>\$ 99,421,962</u>

**Fully paid common shares**

Fully paid common shares, which have no par value, carry one vote per share and carry a right to dividends.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**17. ISSUED CAPITAL (continued)**

Common shares issued	Number of Shares	Value
Balance as at January 1, 2010	159,011,395	\$ 84,653,918
Shares issued on prospectus financings, net of issue costs:		
June <sup>(i)</sup>	17,710,000	19,744,752
November <sup>(ii)</sup>	23,000,000	28,496,255
Exercise of share options	4,446,492	3,137,160
Exercise of share options – option valuation	-	2,214,506
Exercise of warrants	24,554,555	31,488,527
Exercise of warrants – warrant valuation	-	7,247,051
Balance as at December 31, 2010	228,722,442	176,982,169
Shares issued on prospectus financings, net of issue costs:		
March 2011 <sup>(iii)</sup>	81,000,000	73,662,318
Exercise of share options	128,869	106,909
Exercise of share options – option valuation	-	96,736
Share compensation <sup>(iv)</sup>	176,235	211,463
<b>Balance as at September 30, 2011</b>	<b>310,027,546</b>	<b>\$ 251,059,595</b>

- (i) On June 16, 2010, the Company completed a prospectus financing of 17,710,000 common shares at a price of C\$1.30 (\$1.27) per share raising C\$20,211,593 (\$19,744,752), net of issue costs and compensation warrants. The total number of shares issued included a 15% over-allotment that was exercised by the underwriters in full, representing 2,310,000 shares. Share issue costs included underwriter fees of C\$1,151,150 (\$1,124,558) and a success fee of C\$550,000 (\$537,295) paid to Forbes & Manhattan, see note 27. A director of the Company, Stan Bharti, is the executive chairman of Forbes & Manhattan. In addition, 930,500 compensation options were issued to the underwriters that entitle the holder to acquire the same number of common shares at a price of C\$1.30 for a period of two years.
- (ii) On November 22, 2010, the Company completed a prospectus financing, issuing 20,000,000 common shares at a price of C\$1.40 (\$1.37) per share raising C\$25,054,181 (\$24,593,184), net of issue costs. Share issue costs included underwriter fees of C\$1,680,000 (\$1,649,088) and a success fee of C\$800,000 (\$804,343) payable to Forbes & Manhattan, see note 27. A director of the Company, Stan Bharti, is the executive chairman of Forbes & Manhattan. On December 8, 2010, the over-allotment option was exercised in full, and an additional 3,000,000 common shares at C\$1.40 (\$1.37) per share were issued, raising C\$3,941,700 (\$3,903,071) net of issue costs, bringing the aggregate net proceeds to C\$28,995,881 (\$28,496,255).
- (iii) On March 24, 2011, the Company closed a prospectus financing, issuing 81,000,000 units of the Company at a price of C\$1.05 (\$1.06) per unit for aggregate gross proceeds of C\$85,050,000 (\$87,252,795). Each unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of C\$2.25 (\$2.28) per warrant for a period of five years.
- (iv) The Company has a share compensation plan, under the terms of which the board of directors is authorized to issue up to 2,500,000 common shares to encourage the recruitment and retention of key persons. The common shares shall be issued from treasury on a quarterly basis in twelve equal installments over a period of three years. As of September 30, 2011, a total of 2,165,000 have been granted under the plan of which 344,138 are vested, 141,668 have been forfeited and 1,679,194 remain unvested. Of the 344,138 shares that are vested, 167,903 shares with a value of \$351,167 have been recorded as common shares to be issued as of the date of these interim consolidated financial statements.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**17. ISSUED CAPITAL (continued)****Warrants**

The following table summarizes information about the warrants:

Warrants issued	Number of Warrants	Value
Balance as at January 1, 2010	45,976,516	\$ 14,768,044
Warrants issued on exercise of compensation options <sup>(i)</sup>	1,050,000	-
Compensation options issued on June 2010 financing <sup>(iii)</sup>	930,500	627,214
Warrants exercised		
June 15, 2009 common share private placement	(516,714)	(129,014)
October 9, 2009 common share private placement <sup>(i)</sup>	(17,479,988)	(4,565,072)
December 18, 2009 common share private placement	(66,585)	(29,090)
Issued on reverse acquisition <sup>(ii)</sup>	(3,341,268)	(1,456,174)
Compensation options <sup>(i)</sup>	(2,100,000)	(1,067,701)
Compensation option warrants <sup>(i)</sup>	(1,050,000)	-
Warrants expired	(478,345)	(92,840)
Balance as at December 31, 2010	22,924,116	\$ 8,055,367
Warrants issued on March 2011 financing <sup>(iv)</sup>	40,500,000	8,644,297
Warrants issued on over allotment option <sup>(v)</sup>	6,075,000	721,360
Warrants exercised	-	-
Warrants expired	-	-
<b>Balance as at September 30, 2011</b>	<b>69,499,116</b>	<b>\$ 17,421,024</b>

Upon exercise into common shares, the warrants are reclassified to equity.

- (i) On October 9, 2009, the Company completed a private placement of 35,000,000 subscription receipts at a price of C\$1.00 per subscription receipt raising gross proceeds of C\$35,000,000 (\$33,575,500). Each subscription receipt was exercisable without further action required on the part of the holder into one common share and one-half of a common share purchase warrant. Each warrant entitled the holder to acquire one common share at a price of C\$1.50 for a period of two years following the release of the proceeds from escrow. In addition, 2,100,000 compensation options were issued to the underwriters that entitle the holders to acquire the same number of subscription receipts at a price of C\$1.00 for a period of two years following the release of the financing proceeds.

The warrants were subject to accelerated expiry whereby, the expiry of the warrants could be accelerated if the closing price of the underlying common shares listed on the TSX was greater than C\$2.00 for 10 or more consecutive trading days, at which time the Company could give notice to the warrant holders that the warrants would expire on the 30<sup>th</sup> day following receipt of the notice. In January 2010, Crocodile Gold's share price did trade in excess of C\$2.00 for a period of 10 consecutive days and on January 18, 2010, the Company exercised its right to accelerate the expiry date of these warrants. The 1,050,000 common share purchase warrants underlying of the 2,100,000 compensation options provided to the underwriters on the October 9, 2009 private placement were also subject to the accelerated expiry date. Warrants for the issuance of 18,529,988 common shares were exercised at C\$1.50 per warrant along with the 2,100,000 compensation options at C\$1.00, resulting in proceeds of C\$29,894,982 (\$28,531,558) on the issuance of 20,629,988 common shares.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**17. ISSUED CAPITAL (continued)**

- (ii) The Company issued 3,823,410 common share purchase warrants in connection with a reverse acquisition completed in 2009. The common share purchase warrants had an average exercise price of C\$0.97. Common share purchase warrants representing 3,341,268 common shares were subject to accelerated expiry, in that the expiry of the warrants could be accelerated if, at any time following the one year anniversary of the date of the warrant certificates, the closing price of the underlying common shares listed on the TSX was greater than C\$1.134 for 20 or more consecutive trading days. Crocodile Gold's share price did trade in excess of C\$1.134 for 20 or more consecutive days and on January 18, 2010, and the Company gave notice to the warrant holders that the warrants would expire on the 20<sup>th</sup> day following receipt of the notice. A total of 3,341,268 warrants were exercised at C\$0.756 per warrant resulting in proceeds of C\$2,525,999 (\$2,407,782).
- (iii) As part of the June 16, 2010 prospectus financing, 930,500 compensation options were issued to the underwriters that entitle the holder to acquire the same number of common shares at a price of C\$1.30 for a period of two years. The fair value of the compensation options was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.8%; and an expected average life of two years. An amount of \$627,214 was recorded as a cost of issue with respect to these warrants.
- (iv) On March 24, 2011, the Company closed a prospectus financing, issuing 81,000,000 units of the Company at a price of C\$1.05 (\$1.06) per unit for aggregate gross proceeds of C\$85,050,000 (\$87,252,795). Each unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of C\$2.25 (\$2.28) per warrant for a period of five years. As the warrants trade on the TSX, the fair value of the warrants was estimated based on their market value immediately after closing. An amount of \$496,472 was recorded as a cost of issue with respect to these warrants.
- (v) On April 15, 2011, the Company's underwriters exercised an over-allotment option granted by the Company in connection with the March 24, 2011 financing and purchased an additional 6,075,000 common share purchase warrants at a price of C\$0.12 (\$0.13) per warrant. Each common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of C\$2.25 (\$2.34) per warrant for a period of five years.

Summary of warrants outstanding at September 30, 2011:

Number of warrants	Exercise price	Grant date fair value of warrants	Date of expiry
	C\$		
10,000,000	\$1.00	\$2,618,962	November 6, 2012
6,728,501	\$1.00	1,679,988	June 15, 2012
1,265,115	\$1.30	818,963	December 18, 2011
930,500	\$1.30	627,214	June 15, 2012
4,000,000	\$1.50	2,310,240	October 16, 2012
40,500,000	\$2.25	8,644,297	March 24, 2016
6,075,000	\$2.25	721,360	March 24, 2016
69,499,116		\$17,421,024	

## CROCODILE GOLD CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

### 18. SHARE BASED PAYMENT RESERVE

Balance as at January 1, 2010	\$	2,618,448
Share-based compensation - options *		4,312,967
Share options exercised		(2,214,506)
Expiry of common share purchase warrants		92,840
<hr/>		
Balance as at December 31, 2010	\$	4,809,749
Share-based compensation - options *		3,896,354
Share options exercised		(96,736)
Expiry of common share purchase warrants		-
<hr/>		
<b>Balance as at September 30, 2011</b>	<b>\$</b>	<b>8,609,367</b>

\* A portion of the share-based compensation expense has been included in operating expenses on the consolidated statements of operations and a portion has been capitalized to mine properties.

### 19. SHARE-BASED PAYMENTS

#### Employee share option plan

The Company has an ownership-based compensation scheme, to be administered by the board of directors of the Company, for directors, officers, employees and consultants. The plan provides for the issuance of share options to acquire up to 10% of the Company's issued and outstanding capital. The number of shares reserved for issuance pursuant to the grant of share options will increase as the Company's issued and outstanding share capital increases. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, directors, officers, employees and consultants of the Company may be granted options to purchase common shares at an exercise price determined by the board of directors, but which shall not be lower than the market price of the underlying common shares at the time of grant.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the nine months ended September 30, 2011, 7,480,000 (year ended December 31, 2010: 6,700,000) share options were granted to directors, officers, employees and consultants of the Company. These options had a grant date estimated fair value of \$2,914,070 (year ended December 31, 2010: \$5,209,750) and are scheduled to vest and be expensed over a 2-year period from grant date with 1/8<sup>th</sup> of the grant vesting every three months. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

The share options outstanding at the end of the period had a weighted average exercise price of \$1.04 (December 31, 2010: \$1.12), and a weighted average remaining contractual life of 1,417 days (December 31, 2010: 1,501 days).

#### Share compensation plan

At the annual and special meeting of Crocodile Gold's shareholders for the year ended December 31, 2010, shareholders of the Company approved the adoption of a share compensation plan pursuant to which the board of directors was authorized to issue up to 2,500,000 common shares to encourage the recruitment and retention of key persons. The Shares shall be issued from treasury on a quarterly basis in twelve equal installments over a period of three years provided the person remains contracted to the Company at the date the shares are issued.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**19. SHARE-BASED PAYMENTS (continued)****Employee share option plan (continued)**

The following share-based payment arrangements were in existence as at September 30, 2011:

Exercise price (C\$)	Grant date	Number outstanding	Number exercisable	Estimated fair value at grant date	Expiry date
0.20	March 10, 2009	3,170,000	3,170,000	\$ 369,079	March 10, 2014
0.38	June 3, 2009	80,159	80,159	66,378	June 3, 2014
0.70	July 10, 2009	30,000	30,000	13,546	July 10, 2014
0.74	June 17, 2011	1,000,000	250,000	380,729	June 17, 2016
0.74	June 29, 2011	300,000	75,000	113,138	June 29, 2016
0.82	August 11, 2008	34,920	34,920	22,095	August 11, 2013
0.82	May 27, 2011	75,000	18,750	31,824	May 27, 2016
0.90	April 12, 2011	720,000	180,000	335,426	April 12, 2016
0.91	March 21, 2011	300,000	112,500	141,498	March 21, 2016
0.99	June 6, 2011	4,595,000	1,148,750	1,656,266	June 6, 2016
1.09	September 8, 2010	250,000	125,000	197,163	September 8, 2015
1.13	March 1, 2011	50,000	18,750	29,046	March 1, 2016
1.15	August 26, 2010	80,000	50,000	65,236	August 26, 2015
1.19	November 12, 2009	2,143,625	2,143,625	1,823,960	November 12, 2014
1.33	May 21, 2010	40,000	25,000	37,844	May 21, 2015
1.37	February 24, 2011	300,000	112,500	211,725	February 24, 2016
1.39	December 1, 2010	100,000	75,000	66,342	December 1, 2015
1.43	December 8, 2009	150,000	150,000	151,917	December 8, 2014
1.43	November 23, 2010	4,895,000	2,447,500	3,306,383	November 23, 2015
1.59	April 30, 2010	100,000	75,000	118,521	April 30, 2015
1.64	April 19, 2010	500,000	375,000	606,316	April 19, 2015
1.75	March 29, 2010	100,000	87,500	129,177	March 29, 2015
1.91	December 29, 2009	250,000	250,000	345,275	December 29, 2014
1.95	January 4, 2010	75,000	65,625	106,092	January 4, 2015
2.00	February 23, 2010	200,000	175,000	285,620	February 23, 2015
2.24	January 11, 2010	50,000	37,500	81,664	January 11, 2015
\$ 1.04		19,588,704	11,313,079	\$ 10,692,260	

**Fair value of share options granted**

The weighted average fair value of the share options granted during the nine-month period ended September 30, 2011 is \$0.39 (year ended December 31, 2010: \$0.78). Options were priced using the Black-Scholes option-pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years of the Company and the industry in which it operates.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**19. SHARE-BASED PAYMENTS (continued)****Inputs into the model**

The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Grant date share price	C\$0.82	C\$1.46
Exercise price	C\$0.95	C\$1.46
Expected volatility	76%	100%
Expected life	3 years	3 to 5 years
Expected dividend yield	0%	0%
Expected forfeiture rate	5%	5%
Risk-free interest rate	1.60%	2.20%
Weighted average grant date fair value	\$0.39	\$0.78

**Movements in share options during the period**

The following reconciles the share options outstanding during the period:

	Number of options	Weighted average exercise price (C\$)
Balance as at January 1, 2010	11,806,583	\$ 0.76
Granted	6,700,000	1.46
Exercised	(4,446,492)	(0.72)
Forfeited	(1,063,941)	(0.99)
Balance as at December 31, 2010	12,996,150	\$ 1.12
Granted	7,480,000	0.95
Exercised	(128,869)	0.82
Forfeited	(758,577)	1.40
<b>Balance as at September 30, 2011</b>	<b>19,588,704</b>	<b>\$ 1.04</b>

**20. STANDBY CREDIT FACILITY**

In October 2009, the Company entered into a \$25 million standby secured credit facility which allowed the Company to draw on the credit facility, in full, at any time prior to June 30, 2010. The Company chose not to draw down on the credit facility and it expired on June 30, 2010. The Company paid a commitment fee of 4,000,000 common share purchase warrants, each warrant exercisable into one common share of the Company at a price of C\$1.50 for a period of three years. The fair value of the common share purchase warrants was estimated at C\$2,400,000 (\$2,310,240) on the date of grant using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.1%; and, an expected life of three years. With the expiry of the standby credit facility, the deferred costs of \$2,417,389 were charged to the statement of operations as a financing cost during 2010.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**21. PROVISIONS****Rehabilitation provision**

The Company makes full provision for the estimated future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of estimated future rehabilitation costs relating to mine sites, which are expected to be incurred up to 2031. These provisions have been created based on Company's internal estimates. Assumptions, including an inflation rate of 3% and a discount rate of 5.75%, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gold prices and cost of production, which are inherently uncertain.

Movements in carrying amounts:

	Nine months ended September 30, 2011	Year ended December 31, 2010	Year ended January 1, 2010
Balance, beginning of the period	\$ 12,439,745	\$ 9,391,035	\$ -
Additional provisions recognized	1,985,456	1,058,788	9,124,955
Accretion expense			
- Capitalized	-	30,245	130,746
- Expensed	546,095	633,822	135,334
Effect of foreign exchange	(702,200)	1,325,855	-
Balance, end of the period	\$ 14,269,096	\$ 12,439,745	\$ 9,391,035
Current portion of rehabilitation provision	3,231,128	766,413	-
Long-term portion of rehabilitation provision	\$ 11,037,968	\$ 11,673,332	\$ 9,391,035

**22. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2011	December 31, 2010	January 1, 2010
Accounts payable	\$ 4,480,663	\$ 3,607,778	\$ 297,560
Accrued liabilities	10,434,126	10,377,400	10,587,662
Other	-	-	13,147,330
	\$ 14,914,789	\$ 13,985,178	\$ 24,032,552

Accounts payable and accrued liabilities are non-interest bearing and are generally due within 30 days or payable on demand.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**23. EQUIPMENT LOAN**

On September 9, 2011, the Company entered into a bank loan to finance the purchase of certain equipment. The Company's obligations under the loan are secured by equipment with a net book value of \$1,139,009. The loan bears an interest rate of 7.58% per annum with a maturity date of September 28, 2014. Interest expense related to the loan of \$1,000 has been charged to the statement of operations.

Loan liabilities:

	September 30, 2011
2011	\$ 89,310
2012	357,242
2013	357,242
2014	462,840
Total minimum loan payments	1,266,634
Less: Future finance charges	(153,471)
Present value of minimum loan payments	1,113,163
Not later than one year	(283,367)
Later than one year	\$ 829,796

The fair value of the loan liability is approximately equal to its carrying amount.

**24. FINANCE LEASES**

Finance leases relate to equipment with lease terms of 6 years. The Company's obligations under finance leases are secured by the lessors' title to the leased assets. As at September 30, 2011, equipment under finance lease had a net book value of \$196,235 (December 31, 2010: \$211,170, January 1, 2010: \$205,796). During the nine months ended September 30, 2011, interest expense related to finance leases of \$2,809 has been charged to the statement of operations. During the year ended December 31, 2010, the Company recorded interest expense related to the finance leases of \$11,938, of which \$7,311 related to the pre-commercial production period to May 31, 2010 and was charged to mining interests. The balance was charged to the statement of operations.

Finance lease liabilities:

	September 30, 2011	December 31, 2010	January 1, 2010
2010	\$ -	\$ -	\$ 130,695
2011	9,830	41,679	36,523
2012	16,387	17,365	15,218
Total minimum lease payments	26,217	59,044	182,436
Less: Future finance charges	(825)	(3,642)	(10,534)
Present value of minimum lease payments	25,392	55,402	171,902
Not later than one year	(25,392)	(38,403)	(123,355)
Later than one year	\$ -	\$ 16,999	\$ 48,547

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**25. OPERATING LEASE ARRANGEMENTS – COMPANY AS THE LESSEE***Leasing arrangements:*

The Company has entered into leases for an office and car park in the Northern Territory of Australia. These leases have an average term of 2 years (2010: 2 years) with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

Payments recognized as an expense were as follows in the nine months ended:

	September 30, 2011	September 30, 2010
<u>Minimum lease payments</u>	<u>\$ 64,942</u>	<u>\$ 50,650</u>

Minimum commitments remaining under these leases were as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
2010	\$ -	\$ -	\$ 172,148
2011	19,991	102,587	89,895
2012	33,318	-	-
	<u>\$ 53,309</u>	<u>\$ 102,587</u>	<u>\$ 262,043</u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**26. FINANCIAL INSTRUMENTS**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in note 6.

The Company's financial assets and financial liabilities as at September 30, 2011, December 31, 2010 and January 1, 2010 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Available for sale	Other financial assets / (liabilities)	Total
<b>September 30, 2011</b>					
Cash and cash equivalents	\$ 49,200,630	\$ -	\$ -	\$ -	\$ 49,200,630
Restricted cash	14,343,967	-	-	-	14,343,967
Receivables	9,756,496	-	-	-	9,756,496
Other financial assets – current	-	-	-	327,760	327,760
Other financial assets – non-current	1,987,837	-	-	-	1,987,837
Accounts payable and accrued liabilities	-	-	-	14,914,789	14,914,789
Other financial liabilities – current	283,367	-	-	25,392	308,759
Other financial liabilities – non-current	829,796	-	-	-	829,796
<b>December 31, 2010</b>					
Cash and cash equivalents	\$ 22,782,593	\$ -	\$ -	\$ -	\$ 22,782,593
Restricted cash	12,723,487	-	-	-	12,723,487
Receivables	2,229,773	-	-	-	2,229,773
Other financial assets – current	-	-	-	1,301,092	1,301,092
Other financial assets – non-current	2,106,761	-	-	-	2,106,761
Accounts payable and accrued liabilities	-	-	-	13,985,178	13,985,178
Other financial liabilities – current	-	-	-	38,403	38,403
Other financial liabilities – non-current	-	-	-	16,999	16,999
<b>January 1, 2010</b>					
Cash and cash equivalents	\$ 25,434,131	\$ -	\$ -	\$ -	\$ 25,434,131
Restricted cash	47,660	-	-	-	47,660
Receivables	6,063,064	-	-	-	6,063,064
Other financial assets – current	-	-	-	40,260	40,260
Other financial assets – non-current	12,380,206	-	-	-	12,380,206
Accounts payable and accrued liabilities	-	-	-	24,032,552	24,032,552
Other financial liabilities – current	-	-	58,608	123,355	181,963
Other financial liabilities – non-current	-	-	-	48,547	48,547

At September 30, 2011, there are no significant concentrations of credit risk for loans and receivables designated at FVTPL. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **26. FINANCIAL INSTRUMENTS (continued)**

#### **CAPITAL MANAGEMENT**

The capital of the Company consists of common shares, warrants and options.

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mining properties. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is not subject to any externally imposed capital requirements.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the risks, objectives, policies and procedures in 2010 or 2011.

As at September 30, 2011, the capital structure of the Company consists of shareholders' equity totaling \$232,797,838 (December 31, 2010: 171,029,807).

#### **FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### **Credit risk**

The Company's credit risk is primarily attributable to cash and cash equivalents, restricted cash, financial deposits and trade and other amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash held in financial institutions from which management believes the risk of loss to be remote. At September 30, 2011, there are no significant trade receivables. Financial instruments included in amounts receivable consist primarily of goods and services tax due from the Federal Governments of Australia and Canada, and the proceeds from the sale of a surplus ball mill that will be received prior to the delivery of the related asset. Consequently, credit risk is considered low and no allowance for doubtful debts has been recorded at the balance sheet date. As at September 30, 2011, restricted cash was on deposit with the Westpac Banking Corporation, an Australian bank, as collateral on bank guarantees. Management believes that the credit risk with respect to these financial instruments is low.

##### **Liquidity risk**

As at September 30, 2011, the Company had net working capital of \$50,936,471, which included cash and cash equivalents of \$49,200,630, amounts receivable of \$9,756,496, restricted cash of \$1,130,501, prepaid expenses of \$327,760 and inventories of \$8,975,760, partially offset by current liabilities of \$18,454,676. In addition to operating expenses, expenditures over the next twelve month period will include expenditures on exploration and various capital projects.

Current liabilities, comprised mainly of trade payables and accrued liabilities of \$14,914,789, mainly originate from operating expenses and the purchase of assets for ongoing operations, property, plant and equipment, and exploration. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the Company monitors the expected settlement of financial assets and liabilities on an ongoing basis. There are no significant payables that are outstanding past their due dates.

##### **Market risk**

###### **(a) Foreign currency risk**

The functional currency of the Company's Australian operations is the Australian dollar. The functional currency of the Canadian operations is the Canadian dollar. The development and operation of the Company's mining assets will largely be funded with Australian dollars. However, gold is priced on international markets in US dollars, the Company's reporting currency. At September 30, 2011, the Australian dollar was worth \$0.9658 US dollars, compared to \$1.0235 at December 31, 2010 and \$0.8978 at December 31, 2009. During the nine months ended September 30, 2011, the average exchange rate of the Australian dollar against the US dollar was \$1.0384 (nine months ended September 30, 2010: \$0.8972).

## CROCODILE GOLD CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
(Stated in United States dollars, unless otherwise noted)  
September 30, 2011 and 2010

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### 26. FINANCIAL INSTRUMENTS (continued)

#### FINANCIAL RISK FACTORS (continued)

To protect against a strengthening Australian dollar vis-à-vis the United States dollar, the Company holds a significant portion of its cash in Australian dollars. The Company has also historically entered into currency forward contracts to help manage this foreign exchange risk; however, at September 30, 2011 and December 31, 2010, the Company had no currency forward contracts outstanding. During the year ended December 31, 2010, the Company entered into contracts to sell approximately \$26.5 million and purchase Australian dollars. The Company realized a gain of \$1,363,578 on the settlement of these currency forward contracts. These contracts were entered into to normalize operating expenses incurred by the Company's foreign operations as expressed in US dollar terms. Management may hedge up to 50% and 30% of its Australian dollar expenditures over the next three months and subsequent four to twelve months, respectively. This may be done both through holding Australian dollars and the use of currency derivatives.

A 10% change in the average value of the Australian dollar against the US dollar with all other variables held constant would have changed the net loss by \$448,000, or \$0.00 per share, during the nine months ended September 30, 2011.

The Company's cash and cash equivalents were held in the following currencies as at September 30, 2011, December 31, 2010 and January 1, 2010:

	2011	2010	2009
US dollars	\$ 13,619	\$ 737	\$ 1,669
Australian dollars	\$ 42,165,442	\$ 17,782,799	\$ 10,501,150
Canadian dollars	\$ 7,021,569	\$ 4,999,057	\$ 14,931,312

Except for \$47,701, held in Canadian dollars (C\$50,000), the restricted cash is held in Australian dollars.

#### (b) Price risk

The Company is exposed to price risk with respect to commodity prices, specifically the price of gold, but there is also price risk arising from the use of petroleum products. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

During the nine months ended September 30, 2011, the average realized gold price was \$1,482 per ounce. A 10% decrease in the gold price realized by the Company during this period would have increased the net loss by \$8,066,052, or \$0.03 per share.

#### (c) Interest rate risk

The Company's exposure to risks of changes in market interest rates relates primarily to its cash balances. The Company constantly analyses its interest rate exposure, giving consideration to potential renewals of existing positions, alternative financial positions and the mix of fixed and variable interest rates. The Company has cash balances as discussed above and \$1,113,163 of interest bearing debt.

The income earned on these bank accounts is subject to the movement in interest rates. Assuming the \$49,200,630 held in cash and equivalents at September 30, 2011 had a +/- 1% change in interest rates, this would have an effect on loss before income taxes of approximately \$492,000.

## CROCODILE GOLD CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

### 27. RELATED PARTY DISCLOSURES

These condensed interim consolidated financial statements include the financial statements of the Company and its subsidiaries, which are listed in the following table:

	Country of incorporation	Percentage of equity interest September 30, 2011
Crocodile Gold Inc.	Canada	100
Crocodile Gold Australia Pty Ltd	Australia	100
Crocodile Gold Australia Operations Pty Ltd	Australia	100
Franc-Or Resources Peru S.A.C.	Peru	100

### Compensation of key management of the Company

The directors' fees, consulting fees and other compensation of directors and other key management personnel were as follows during the nine months ended:

	September 30, 2011	September 30, 2010
Short-term compensation and benefits	\$ 1,500,900	\$ 803,801
Share-based payments	2,713,025	2,020,010
	<b>\$ 4,213,925</b>	<b>\$ 2,823,811</b>

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. Included in the above table are the compensation and benefits paid to Forbes & Manhattan for consulting and advisory services; see below.

The remuneration of directors and key executives is determined by the compensation committee.

#### *Agreement with Forbes & Manhattan*

Payments to Forbes & Manhattan include a general fee of C\$25,000 per month, success fees on equity or debt financings and bonuses on transactions completed by the Company. A "transaction" is defined as any merger, amalgamation, plan of arrangement, reorganization, business combination, take-over bid, purchase or similar transaction. As well, any strategic asset acquisition, pursuant to which the assets and business of the Company are combined with another corporation or the Company acquires more than 50% of another corporation and the Company is the continuing entity. The Company may also, from time to time, make discretionary payments in such amounts and in such form as the board of directors considers appropriate in consideration for value provided by Forbes & Manhattan to the Company.

The success fee on financings is calculated on a graduated basis, with a fee of C\$300,000 payable on financings in the amount of C\$15 million or less, C\$550,000 on financings between C\$15 million and C\$25 million, C\$800,000 on financings between C\$25 million and C\$50 million, C\$1,050,000 on financings between C\$50 million and C\$100 million and a maximum fee of C\$1,300,000 on financings of greater than C\$100 million.

The bonus to be paid on the completion of a transaction is also dependent on the value of the transaction and is calculated as follows:

- transactions with a value of C\$100 million or lower - a bonus equal to 1% of the transaction is payable;
- transactions with a value above C\$100 million, but lower than C\$200 million - a bonus equal to 0.75% of the transaction is payable;
- transactions with a value above C\$200 million, but lower than C\$500 million - a bonus equal to 0.50% of the transaction is payable; and,
- transactions above C\$500 million - a bonus equal to 0.25% of the transaction is payable.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **27. RELATED PARTY DISCLOSURES (continued)**

Success fees and transaction fees may be paid in shares of the Company at current market value or in cash, at the option of the Company, subject to regulatory approval. If the Company pays in shares, Forbes & Manhattan will not sell or enter into any agreement to sell the shares so issued for a period of six months from issuance. In addition, the success fees payable on equity or debt financings would no longer be payable if the Company has a market capitalization of C\$500 million or more. Any such restriction shall cease to apply in the event of a change of control. Notwithstanding the foregoing, a fee shall only be paid by the Company to Forbes & Manhattan for a transaction if the transaction does not constitute a change of control.

In the event that there is a change of control of the Company, either party may terminate this appointment within one year from the date of such change in control. In the event of making such an election, a lump sum termination payment of approximately \$3,673,000 to Forbes & Manhattan, equivalent to 36 months in general fees plus an amount that is equivalent to all bonuses paid to Forbes & Manhattan in the 36 months prior to the change in control, shall be paid.

In terms of this agreement, the following payments were made to Forbes & Manhattan in 2010 and 2011:

- C\$550,000 (\$516,626) following completion of the June 2010 prospectus financing;
- C\$800,000 (\$804,343) following completion of the November 2010 prospectus financing, paid in March 2011.

The payment that would otherwise have been due in connection with the financing described in Note 17 (iii) was waived by Forbes & Manhattan as a condition of that financing.

A director of the Company, Stan Bharti, is the executive chairman of Forbes & Manhattan.

#### **Other related party disclosures**

In September 2010, an officer and two directors of the Company exercised an aggregate of 1,225,000 stock options at a price of \$1.19 per option. Of the options exercised by one of the directors, 500,000 options had not yet vested. The board of directors, within the authority granted by the Company's stock option plan, accelerated the vesting of the unvested options to allow for their exercise.

The Company shares its premises with other corporations that have common directors and/or officers. The Company reimburses and recovers from the related corporations their proportional share of expenses. Included in accounts payable at September 30, 2011 was \$26,334 (December 31, 2010: \$nil, January 1, 2010: \$10,844) owing to and \$1,885 (December 31, 2010: \$50,878, January 1, 2010: \$47,329) owing from related corporations. Such amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

### **28. NON-CASH TRANSACTIONS**

During the 2011 and 2010 financial periods, the Company entered into the following non-cash investing and financing activities, which are not reflected in the statement of cash flows:

- the Company acquired \$nil of equipment under a finance lease (2010: nil; 2009: \$206,421).
- the Company acquired \$1,156,605 of mine vehicles with bank financing (2010: \$nil; 2009: \$nil).

### **29. CAPITAL COMMITMENTS**

#### **(a) Tenement obligations**

The Company intends to carry out expenditures on each project to meet Department of Industry and Resources commitments. These obligations are subject to amendment upon expiry of the exploration leases or when application for a mining license is made. In order to maintain current rights of tenure to exploration and mining tenements, the Company is required to make lease rental payments and to meet minimum expenditure requirements that at September 30, 2011 are estimated to be \$1,541,249 (December 31, 2010 and January 1, 2010: \$1,600,000).

The Company also has an obligation to spend \$2,000,000 on exploration for base metals at Burnside, Iron Blow/Mt Bonnie by the end of 2012.

These obligations are not provided for in the consolidated financial statements.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

---

### **29. CAPITAL COMMITMENTS (continued)**

#### **(b) Environmental bonds**

As at September 30, 2011, the Company had funds placed on deposit as collateral for bank guarantees issued to the Northern Territory Government. The bank guarantees, totaling \$13,072,948, are security under environmental bond requirements, and are in addition to environmental security bonds of \$140,518. A further \$882,940 is scheduled to be deposited over the next 12 months.

### **30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

#### **(a) Native title claims**

A number of native title claims have been applied for under the Native Titles Act 1993 (Cth) ("NTA") over areas of the Northern Territory of Australia in which the Company has an interest. The National Native Title Tribunal has registered some of these claims as the first step in the procedures established under the NTA to enable determination, by the Federal Court of Australia, of whether native title exists. Although the final effect of these applications is uncertain, they currently do not have a significant effect on the activities of the Company.

#### **(b) Contingent contractual royalty obligations**

The Company has the following contingent contractual obligations with respect to royalties:

- (i) a vendor royalty of A\$20 per ounce of gold produced from the Brocks Creek underground mine. During the nine months ended September 30, 2011, the Company recorded royalty expense of \$108,268 (during the year ended December 31, 2010, the Company recorded royalty expense of \$393,534, of which \$150,185 was capitalized as pre-commercial production and the balance expensed to the statement of operations).
- (ii) a vendor royalty of 1% of gold produced from certain tenements in the Brocks Creek area. The royalty becomes payable only after recovery of all operating and capital costs involved with the post-1995 development of the Brocks Creek tenements, and \$nil or minimal royalty is expected to be paid.
- (iii) a vendor royalty of A\$4 per ounce of gold produced from the Pine Creek tenements.
- (iv) a 1% ad valorem royalty on any future gold production above 250,000 ounces derived from the Maud Creek Gold Project.
- (v) a 1% royalty payable on gold produced from certain tenements within the Tom's Gully Gold Project.
- (vi) royalties payable to various vendors of tenements located outside the currently anticipated mining areas.

The Company also has contingent contractual obligations with respect to the Maud Creek Gold Project. A payment of A\$2,000,000 would be due upon a decision to proceed with development of the Maud Creek Gold Project, in addition to the production royalty described above.

#### **(c) Management contracts**

The Company is party to certain management contracts. As at September 30, 2011, these contracts require that additional payments of approximately \$4,142,000 be made upon the occurrence of a change of control. As the likelihood of this taking place is not determinable, the contingent payments have not been reflected in these interim consolidated financial statements. Minimum commitments upon termination of these contracts are approximately \$1,187,000.

#### **(d) Northern Territory profits royalty/tax**

All of the Company's tenements within the Northern Territory are subject to a Northern Territory Government profits royalty/tax. The current tax rate is 20% of the Net Value of mine production, where the Net Value equals the gross realization from the relevant production unit less the operating costs of the production unit for the year, a capital allowance on eligible capital assets expenditure, eligible exploration expenditure and additional deductions as approved by the relevant Northern Territory Government Minister.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
(Stated in United States dollars, unless otherwise noted)  
September 30, 2011 and 2010

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### **30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)**

#### **(e) Stamp duty dispute**

The Northern Territory of Australia levies a stamp duty on various instruments and transactions. The stamp duty is levied at a rate of approximately 5% on the dutiable value of the transaction. On the purchase of the Australian mineral properties in 2009, the Company paid stamp duty of A\$2,264,000 (\$1,818,000). In January 2010, the Territory Revenue Office ("TRO") of the Northern Territory notified the Company that it was the position of the TRO that stamp duty was payable on the fair value of the Company's dutiable Australian property on the date of the amalgamation that created Crocodile Gold, November 3, 2009. The Company believes that the amalgamation did not trigger a stamp duty liability and is contesting the TRO decision. In February 2010, the Company paid A\$2,058,334 (\$2,208,361) to the TRO, being a reasonable estimate of the potential stamp duty arising if the TRO's position eventually prevails. Despite the payment, which is recorded as a financial deposit, the Company's position remains that the amalgamation did not trigger a stamp duty liability and is pursuing its options to recover the amount paid; however, the eventual outcome of this dispute is unknown. Also, while the Company believes that the amount paid is based on a reasonable estimate of the value of the assets subject to stamp duty liability if the TRO position is upheld, the final amount due could be higher and would be subject to interest and possible penalties.

#### **(f) Environmental contingencies**

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

### **31. TRANSITION TO IFRS**

The Company's annual consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. These condensed interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has prepared IFRS compliant financial statements was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **31. TRANSITION TO IFRS (continued)**

#### **Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

#### *IFRS Exemption Options:*

1. Business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The Company has elected to apply IFRS 3 prospectively. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

2. Currency translation differences

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company has not elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.

3. Share-based payments

IFRS 2, *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

4. Decommissioning, restoration and similar liabilities

The Company elected to apply the recognition and measurement principles of IFRIC 1 to changes in existing decommissioning, restoration and similar liabilities prior to January 1, 2010. The Company has determined its decommissioning liabilities at the transition date, discounted the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciated these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets.

5. *Borrowing costs*

The Company did not elect under IFRS 1 to apply the transitional provisions of IAS 23, *Borrowing Costs* as an alternative to full retrospective application. Under these provisions, the Company may have elected to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

6. Consolidated and separate financial statements

In accordance with IFRS 1, if a Company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

#### *IFRS Mandatory Exceptions*

#### Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)****Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows from operating investing and financing activities, no reconciliations have been presented.

*Reconciliation of equity*

For the periods ended	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>January 1, 2010</b>
Shareholders' equity under Canadian GAAP	\$ 174,855,125	\$ 150,341,368	\$ 87,110,482
IFRS adjustments	(3,825,318)	(3,705,540)	(1,280,385)
Total equity under IFRS	<u>\$ 171,029,807</u>	<u>\$ 146,635,828</u>	<u>\$ 85,830,097</u>

*Reconciliation of income (loss)*

	<b>Year ended December 31, 2010</b>	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
Net income (loss) under Canadian GAAP	\$ (19,836,004)	\$ 2,393,803	\$ (5,074,034)
IFRS adjustments	(1,844,281)	(159,874)	(2,099,355)
Net income (loss) under IFRS	<u>\$ (21,680,285)</u>	<u>\$ 2,233,929</u>	<u>\$ (7,173,389)</u>

*Reconciliation of comprehensive income (loss)*

	<b>Year ended December 31, 2010</b>	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
Comprehensive income (loss) under Canadian GAAP	\$ (507,148)	\$ 17,513,753	\$ 10,677,769
IFRS adjustments	(2,100,015)	(454,548)	(92,666)
Comprehensive income (loss) under IFRS	<u>\$ (2,607,163)</u>	<u>\$ 17,059,205</u>	<u>\$ 10,585,103</u>

**Changes in accounting policies**

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

## 1. Share-based compensation

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to share options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Share options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Share options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010; and,

From January 1, 2010, all share options and other share-based payments will be expensed in accordance with the policy stated in note 6.

Canadian GAAP: For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award. Forfeitures of awards are recognized as they occur.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **31. TRANSITION TO IFRS (continued)**

#### **Changes in accounting policies (continued)**

IFRS: Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

#### **2. Impairments**

Canadian GAAP: A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value. Reversal of impairment losses is not permitted.

IFRS: The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. Reversal of impairment losses is required for assets other than goodwill if certain criteria are met

There was no impact on the Company's consolidated financial statements as a result of these changes.

#### **3. Property, plant and equipment**

Canadian GAAP: Costs incurred for property, plant and equipment on initial recognition are allocated to significant components when practicable. Costs incurred subsequent to the initial purchase of property, plant and equipment are capitalized when they constitute a betterment, which occurs when the productive capacity or useful life of an existing asset is increased or when the associated operating costs are decreased. Otherwise, these costs are expensed.

IFRS: Costs incurred subsequent to the initial purchase of property, plant and equipment are capitalized when it is probable that future economic benefits will flow to the Company over a period and the costs can be measured reliably. Upon capitalization, the carrying amount of components replaced, if any, are derecognized.

There was no impact on the Company's consolidated financial statements as a result of this change.

Due to the adjustments to the provision for environmental rehabilitation discussed in note 21 and paragraph 4 below, the cost of mine properties is different in accordance with IFRS than in accordance with Canadian GAAP. As a result, even though depreciation is calculated in the same manner, the amount of depreciation differs.

#### **4. Decommissioning and rehabilitation provision**

Canadian GAAP: Asset retirement obligations are measured at fair value, incorporating market assumptions and discount rates based on the entity's credit-adjusted risk-free rate. Adjustments are made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone do not result in a re-measurement of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability, while changes that increase the liability are discounted using the current discount rate.

IFRS: Decommissioning provisions are measured based on management's best estimate of the expenditures that will be incurred and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability to fair value (unwinding of the discount). Furthermore, the estimated future cash flows are discounted using the current rates.

## **CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

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### **31. TRANSITION TO IFRS (continued)**

#### **Changes in accounting policies (continued)**

The Company recorded an opening IFRS balance sheet adjustment at January 1, 2010 to reflect the retrospective application of the provisions of IFRIC 1, *Changes in Existing Decommission, Restoration and Similar Liabilities*, as they relate to changes in such liabilities before the date of transition to IFRS. Applying this exemption, the Company determined its decommissioning liabilities at the transition date, discounted the liabilities back to the dates when they first arose using management's best estimate of discount rates, and depreciated these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets.

#### Exploration expenditures

IFRS 6 applies to exploration and evaluation expenditures incurred in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures, or recognize all such expenditures in the statement of operations and comprehensive income (loss) as incurred.

The Company has elected to change its accounting policy from deferring all exploration and evaluation expenditures and will instead expense post-acquisition exploration costs as incurred.

#### 5. Cumulative translation differences

Canadian GAAP: For an integrated foreign operation, no foreign exchange translation in equity is noted.

IFRS: The functional currency of each entity is determined separately.

The Company has determined that as at the Transition Date, the Canadian dollar was the functional currency of the Canadian holding companies, and the Australian dollar was the functional currency of the Australian operating subsidiaries. Under Canadian GAAP, in 2009 the Australian operating subsidiaries were considered to be integrated foreign operations. Assessing the functional currency of each entity separately under IFRS, however, these foreign subsidiaries have had an Australian dollar functional currency since acquisition and therefore as at the Transition Date.

#### **Presentation Reclassifications**

1. Under IFRS, the Company will present accretion of its environmental rehabilitation obligations as part of finance costs, as compared to depreciation and depletion under Canadian GAAP.
2. Under Canadian GAAP, capitalized exploration and evaluation costs were disclosed as capital expenditures or acquisition expenditures as part of mineral interests. Under IFRS, these costs are separately disclosed in the statement of financial position.

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statement of financial position as at January 1, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS Balances
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 25,434,131	\$ -	\$ 25,434,131
Restricted cash		47,660	-	47,660
Receivables		6,063,064	-	6,063,064
Inventories		8,164,890	-	8,164,890
Prepaid expenses and other current assets		40,260	-	40,260
Other financial assets		-	-	-
		<u>39,750,005</u>	<u>-</u>	<u>39,750,005</u>
<b>Non-current assets</b>				
Restricted cash		-	-	-
Financial deposits		9,997,211	-	9,997,211
Exploration and evaluation assets	5, 6	-	10,434,080	10,434,080
Mine properties	4, 5, 6	34,155,016	(8,996,748)	25,158,268
Property, plant and equipment	6	30,871,734	889,901	31,761,635
Other financial assets		2,382,995	-	2,382,995
<b>Total assets</b>		<u>\$ 117,156,961</u>	<u>\$ 2,327,233</u>	<u>\$ 119,484,194</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 24,032,555	\$ (3)	\$ 24,032,552
Provisions		-	-	-
Finance lease obligations		123,355	-	123,355
Other financial liabilities		58,608	-	58,608
		<u>24,214,518</u>	<u>(3)</u>	<u>24,214,515</u>
<b>Long-term liabilities</b>				
Finance lease obligations		48,547	-	48,547
Provisions	4	5,783,414	3,607,621	9,391,035
<b>Total liabilities</b>		<u>30,046,479</u>	<u>3,607,618</u>	<u>33,654,097</u>
<b>Shareholders' equity</b>				
Issued capital		99,421,962	-	99,421,962
Option reserves	1	2,624,206	(5,758)	2,618,448
Accumulated other comprehensive loss	1, 4, 5	3,125,397	(281,744)	2,843,653
Retained deficit	1, 4, 5, 6	(18,061,083)	(992,883)	(19,053,966)
<b>Total equity</b>		<u>87,110,482</u>	<u>(1,280,385)</u>	<u>85,830,097</u>
		<u>\$ 117,156,961</u>	<u>\$ 2,327,233</u>	<u>\$ 119,484,194</u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statements of operations and comprehensive income (loss) for the three months ended September 30, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS Balances
Revenue		\$ 30,646,673	\$ -	\$ 30,646,673
<b>Cost of operations</b>				
Operating expenses		(23,736,800)	-	(23,736,800)
Royalty expense		(79,465)	-	(79,465)
Depletion and depreciation		(3,856,085)	194,197	(3,661,888)
<b>Cost of sales</b>		<u>(27,672,350)</u>	<u>194,197</u>	<u>(27,478,153)</u>
<b>Mine operating earnings (loss)</b>		<u>2,974,323</u>	<u>194,197</u>	<u>3,168,520</u>
<b>Expenses</b>				
Exploration expenses	5	-	(323,322)	(323,322)
Care and maintenance expenses		(1,110,123)	-	(1,110,123)
Professional, consulting and management fees		(640,658)	-	(640,658)
Other general and administrative expenses		(209,584)	-	(209,584)
Share-based payments	1	(699,010)	(60,908)	(759,918)
Other gains and losses		2,018,301	(404)	2,017,897
<b>Operating profit (loss)</b>		<u>2,333,249</u>	<u>(190,437)</u>	<u>2,142,812</u>
Finance income		239,738	-	239,738
Finance costs	4	(179,184)	30,563	(148,621)
<b>Net profit (loss)</b>		<u>\$ 2,393,803</u>	<u>\$ (159,874)</u>	<u>\$ 2,233,929</u>
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	1, 4, 5, 6	17,513,753	(454,548)	17,059,205
<b>Comprehensive income (loss)</b>		<u>\$ 19,907,556</u>	<u>\$ (614,422)</u>	<u>\$ 19,293,134</u>
<b>Earnings (loss) per share – basic and diluted</b>		\$ 0.01	\$ (0.00)	\$ 0.01
<b>Weighted average number of shares outstanding</b>				
– basic (number)		203,617,362	203,617,362	203,617,362
– diluted (number)		208,879,028	208,879,028	208,879,028

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statements of operations and comprehensive income (loss) for the nine months ended September 30, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS Balances
Revenue		\$ 41,590,942	\$ -	\$ 41,590,942
<b>Cost of operations</b>				
Operating expenses		(33,152,972)	-	(33,152,972)
Royalty expense		(122,265)	-	(122,265)
Depletion and depreciation		(5,579,601)	442,866	(5,136,735)
<b>Cost of sales</b>		<u>(38,854,838)</u>	<u>442,866</u>	<u>(38,411,972)</u>
<b>Mine operating earnings (loss)</b>		<u>2,736,104</u>	<u>442,866</u>	<u>3,178,970</u>
<b>Expenses</b>				
Exploration expenses	5	-	(2,716,083)	(2,716,083)
Care and maintenance expenses		(1,216,297)	-	(1,216,297)
Professional, consulting and management fees		(1,878,965)	-	(1,878,965)
Other general and administrative expenses		(982,142)	-	(982,142)
Share-based payments	1	(2,964,400)	233,135	(2,731,265)
Other gains and losses		(1,240,943)	387,606	(853,337)
<b>Operating profit (loss)</b>		<u>(5,546,643)</u>	<u>(1,652,476)</u>	<u>(7,199,119)</u>
Finance income		733,582	-	733,582
Finance costs	4	(260,973)	(446,879)	(707,852)
<b>Net profit (loss)</b>		<u>\$ (5,074,034)</u>	<u>\$ (2,099,355)</u>	<u>\$ (7,173,389)</u>
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	1, 4, 5, 6	10,677,769	(92,666)	10,585,103
<b>Comprehensive income (loss)</b>		<u>\$ 5,603,735</u>	<u>\$ (2,192,021)</u>	<u>\$ 3,411,714</u>
<b>Earnings (loss) per share – basic and diluted</b>		\$ (0.03)	\$ (0.01)	\$ (0.04)
<b>Weighted average number of shares outstanding – basic and diluted (number)</b>		188,423,934	188,423,934	188,423,934

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statement of financial position as at September 30, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS balances
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 9,484,503	\$ -	\$ 9,484,503
Restricted cash		48,591	-	48,591
Receivables		2,662,026	-	2,662,026
Inventories		11,582,260	-	11,582,260
Prepaid expenses and other current assets		1,136,648	-	1,136,648
Other financial assets		-	-	-
		<u>24,914,028</u>	<u>-</u>	<u>24,914,028</u>
<b>Non-current assets</b>				
Restricted cash		11,807,120	-	11,807,120
Financial deposits		2,015,070	-	2,015,070
Exploration and evaluation assets	5, 6	4,642,507	4,232,415	8,874,922
Mine properties	4, 5, 6	92,301,346	(5,292,043)	87,009,303
Property, plant and equipment	6	35,660,646	1,044,144	36,704,790
Other financial assets		-	-	-
<b>Total assets</b>		<u>\$ 171,340,717</u>	<u>\$ (15,484)</u>	<u>\$ 171,325,233</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 14,065,016	\$ -	\$ 14,065,016
Provisions		-	-	-
Finance lease obligations		35,437	-	35,437
Other financial liabilities		-	-	-
		<u>14,100,453</u>	<u>-</u>	<u>14,100,453</u>
<b>Long-term liabilities</b>				
Finance lease obligations		25,370	-	25,370
Provisions	4	6,873,526	3,690,056	10,563,582
<b>Total liabilities</b>		<u>20,999,349</u>	<u>3,690,056</u>	<u>24,689,405</u>
<b>Shareholders' equity</b>				
Issued capital		155,608,806	(67,703)	155,541,103
Option reserves	1	4,064,513	(171,189)	3,893,324
Accumulated other comprehensive loss	1, 4, 5	13,803,166	(374,410)	13,428,756
Retained deficit	1, 4, 5, 6	(23,135,117)	(3,092,238)	(26,227,355)
<b>Total equity</b>		<u>150,341,368</u>	<u>(3,705,540)</u>	<u>146,635,828</u>
		<u>\$ 171,340,717</u>	<u>\$ (15,484)</u>	<u>\$ 171,325,233</u>

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS balances
<b>Revenue</b>		\$ 73,351,420	\$ -	\$ 73,351,420
<b>Cost of operations</b>				
Operating expenses		(63,726,536)	-	(63,726,536)
Royalty expense		(243,349)	-	(243,349)
Depletion and depreciation	5	(9,810,492)	217,045	(9,593,447)
<b>Cost of sales</b>		<u>(73,780,377)</u>	<u>217,045</u>	<u>(73,563,332)</u>
<b>Mine operating earnings (loss)</b>		<u>(428,957)</u>	<u>217,045</u>	<u>(211,912)</u>
<b>Expenses</b>				
Impairments		(8,704,929)	-	(8,704,929)
Exploration	5	-	(2,147,332)	(2,147,332)
Care and maintenance expenses		(1,613,556)	-	(1,613,556)
Professional, consulting and management fees		(3,153,612)	-	(3,153,612)
Other general and administrative expenses		(1,309,894)	-	(1,309,894)
Share-based payments	1	(4,231,779)	444,916	(3,786,863)
Other gains and losses		(817,945)	(18,592)	(836,537)
<b>Operating profit (loss)</b>		<u>(20,260,672)</u>	<u>(1,503,963)</u>	<u>(21,764,635)</u>
Finance income		948,749	18,592	967,341
Finance costs	4	(524,081)	(358,910)	(882,991)
<b>Net profit (loss)</b>		<u>\$ (19,836,004)</u>	<u>\$ (1,844,281)</u>	<u>\$ (21,680,285)</u>
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	1, 4, 5, 6	19,328,856	(255,734)	19,073,122
<b>Comprehensive income (loss)</b>		<u>\$ (507,148)</u>	<u>\$ (2,100,015)</u>	<u>\$ (2,607,163)</u>
<b>Earnings (loss) per share – basic and diluted</b>		(0.10)	(0.01)	(0.11)
<b>Weighted average number of shares outstanding – basic and diluted (number)</b>		195,012,359	195,012,359	195,012,359

**CROCODILE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Stated in United States dollars, unless otherwise noted)

September 30, 2011 and 2010

**31. TRANSITION TO IFRS (continued)**

Reconciliation of consolidated statement of financial position as at December 31, 2010:

	Notes	C-GAAP balances	IFRS adjustments	IFRS balances
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 22,782,593	\$ -	\$ 22,782,593
Restricted cash		50,271	-	50,271
Receivables		2,229,773	-	2,229,773
Inventories		8,807,187	-	8,807,187
Prepaid expenses and other current assets		1,301,092	-	1,301,092
Other financial assets		-	-	-
		<u>35,170,916</u>	<u>-</u>	<u>35,170,916</u>
<b>Non-current assets</b>				
Restricted cash		12,673,216	-	12,673,216
Financial deposits		2,106,761	-	2,106,761
Exploration and evaluation assets	5, 6	5,226,457	6,198,392	11,424,849
Mine properties	4, 5, 6	99,723,256	(7,014,207)	92,709,049
Property, plant and equipment	6	42,317,780	1,107,561	43,425,341
Other financial assets		-	-	-
<b>Total assets</b>		<u>\$ 197,218,386</u>	<u>\$ 291,746</u>	<u>\$ 197,510,132</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 13,985,174	\$ 4	\$ 13,985,178
Provisions		766,413	-	766,413
Finance lease obligations		38,403	-	38,403
Other financial liabilities		-	-	-
		<u>14,789,990</u>	<u>4</u>	<u>14,789,994</u>
<b>Long-term liabilities</b>				
Finance lease obligations		16,999	-	16,999
Provisions	4	7,556,272	4,117,060	11,673,332
<b>Total liabilities</b>		<u>22,363,261</u>	<u>4,117,064</u>	<u>26,480,325</u>
<b>Shareholders' equity</b>				
Issued capital	1	185,123,897	(86,361)	185,037,536
Option reserves	1	5,174,062	(364,313)	4,809,749
Accumulated other comprehensive loss	1, 4, 5	22,454,253	(537,479)	21,916,774
Retained deficit	1, 4, 5, 6	(37,897,087)	(2,837,165)	(40,734,252)
<b>Total equity</b>		<u>174,855,125</u>	<u>(3,825,318)</u>	<u>171,029,807</u>
		<u>\$ 197,218,386</u>	<u>\$ 291,746</u>	<u>\$ 197,510,132</u>