



Interim
Consolidated
Financial Statements
September 30th, 2011
(Unaudited)

San Gold Corporation
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SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

ASSETS

	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
CURRENT ASSETS			
Cash	\$ 5,195,904	\$ -	\$ -
Accounts receivable	13,703,569	8,594,032	3,607,864
Marketable securities (Note 4)	26,137,042	59,547,707	13,294,890
Supply inventory	4,250,319	2,471,730	1,680,699
Gold in process (Note 5)	10,244,102	6,118,920	8,649,764
Prepaid expenses	822,160	467,659	460,086
	<u>60,353,096</u>	<u>77,200,048</u>	<u>27,693,303</u>
PROPERTY, PLANT AND EQUIPMENT (Note 6)	48,651,747	28,295,682	14,602,362
MINERAL PROPERTIES (Note 7)	123,311,851	95,785,374	64,346,503
OTHER ASSETS			
Collateral deposit	-	-	51,221
Mining claims and options (Note 8)	6,632,949	6,382,949	1,002,649
Investment in associate (Note 9)	1	1	503,165
	<u>6,632,950</u>	<u>6,382,950</u>	<u>1,557,035</u>
	<u>\$ 238,949,644</u>	<u>\$ 207,664,054</u>	<u>\$ 108,199,203</u>

LIABILITIES

CURRENT LIABILITIES			
Bank indebtedness	\$ -	\$ 3,725,589	\$ 356,918
Accounts payable and accrued liabilities (Note 10)	13,702,849	10,983,062	5,685,030
Flow-through share premium (Note 19)	7,957,700	-	-
Current portion of long-term debt (Note 11)	1,389,878	1,264,791	393,377
	<u>23,050,427</u>	<u>15,973,442</u>	<u>6,435,325</u>
LONG-TERM LIABILITIES			
Asset retirement obligation (Note 12)	3,325,383	3,133,233	3,010,526
Long-term debt (Note 11)	2,279,903	1,332,961	306,819
Net royalty obligation (Note 21)	2,180,259	2,371,623	2,626,790
	<u>7,785,545</u>	<u>6,837,817</u>	<u>5,944,135</u>

SHAREHOLDERS' EQUITY

EQUITY	<u>208,113,672</u>	<u>184,852,795</u>	<u>95,819,743</u>
	<u>\$ 238,949,644</u>	<u>\$ 207,664,054</u>	<u>\$ 108,199,203</u>

Commitments (Note 25)

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

These financial statements were approved by the board of directors and authorized for issue on November 14th, 2011.

APPROVED BY THE BOARD: "Hugh Wynne" Director

"Dale Ginn" Director



SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30
(Unaudited)

	Three month period ended		Nine month period ended	
	2011	2010	2011	2010
REVENUE	\$ 32,890,612	\$ 13,881,005	\$ 81,140,457	\$ 40,475,961
OPERATIONS				
Operations (Note 16)	20,740,879	9,749,257	58,208,199	40,742,867
INCOME (LOSS) FROM OPERATIONS	12,149,733	4,131,748	22,932,258	(266,906)
Exploration	6,120,819	4,717,997	18,703,031	9,392,300
General and administrative (Note 17)	5,089,684	4,103,059	12,355,766	10,997,549
INCOME (LOSS) BEFORE OTHER REVENUE AND EXPENSES	939,230	(4,689,308)	(8,126,539)	(20,656,755)
OTHER REVENUE AND EXPENSES				
Finance income - net (Note 18)	185,665	143,331	665,210	495,267
Finance costs (Note 18)	(114,248)	(71,963)	(353,108)	(162,597)
Equity loss of associate (Note 9)	-	-	(483,350)	(503,164)
Loss on disposal of property, plant and equipment	-	(7,714)	-	(7,714)
NET INCOME (LOSS) BEFORE INCOME TAX	1,010,647	(4,625,654)	(8,297,787)	(20,834,963)
Income tax recovery on flow-through shares (Note 19)	-	-	-	5,568,350
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	1,010,647	(4,625,654)	(8,297,787)	(15,266,613)
EARNINGS (LOSS) PER COMMON SHARE: (Note 22)				
Basic	\$ -	\$ (0.02)	\$ (0.03)	\$ (0.06)
Diluted	\$ -	\$ (0.02)	\$ (0.03)	\$ (0.06)



SAN GOLD CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30
(UNAUDITED)

	Three month period ended		Nine month period ended	
	September 30	September 30	September 30	September 30
	2011	2010	2011	2010
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ 1,010,647	\$ (4,625,654)	\$ (8,297,787)	\$ (15,266,613)
Add: Items not affecting cash				
Accretion - asset retirement obligation	6,228	6,409	20,763	25,198
Amortization - property, plant and equipment	1,269,245	720,543	3,282,549	1,838,976
Loss on disposal of property, plant and equipment	-	7,714	-	7,714
Depletion - mineral properties	4,956,566	1,784,094	12,483,511	6,500,593
Fair market value adjustment on marketable securities	(62,986)	(33,143)	(280,076)	(74,767)
Deferred revenue realized	(63,788)	(63,788)	(191,364)	(191,364)
Equity loss from subsidiary	-	-	483,350	503,164
Share-based compensation	2,669,901	1,791,237	5,760,365	5,328,063
Income tax recovery	-	-	-	(5,568,350)
Net change in non-cash working capital (Note 27)	568,206	(6,243,703)	(9,009,423)	(1,412,566)
	10,354,019	(6,656,291)	4,251,888	(8,309,952)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(6,359,866)	(6,477,571)	(21,122,354)	(10,029,357)
Proceeds on disposition of property, plant and equipment	-	6,000	-	6,000
Investment in mineral properties	(12,386,476)	(8,584,483)	(39,838,600)	(26,502,737)
Change in marketable securities	14,760,001	(52,052,551)	33,690,741	(57,133,681)
Purchase of mining claims and options	(250,000)	(50,000)	(250,000)	(1,120,000)
	(4,236,341)	(67,158,605)	(27,520,213)	(94,779,775)
FINANCING ACTIVITIES				
Proceeds from shares issued and subscribed	2,672,879	85,016,148	35,289,068	114,609,664
Proceeds from long-term debt	-	-	375,995	1,207,018
Share issue costs	-	(4,635,084)	(1,655,019)	(6,174,867)
Repayment of long-term debt	(508,322)	(530,385)	(1,820,226)	(999,992)
	2,164,557	79,850,679	32,189,818	108,641,823
CHANGE IN CASH	8,282,235	6,035,783	8,921,493	5,552,096
CASH (BANK INDEBTEDNESS), BEGINNING OF THE PERIOD	(3,086,331)	(840,605)	(3,725,589)	(356,918)
CASH, END OF THE PERIOD	\$ 5,195,904	\$ 5,195,178	\$ 5,195,904	\$ 5,195,178
Supplementary Information				
Interest paid	\$ 108,019	\$ 41,520	\$ 332,345	\$ 67,781
Finance income received	\$ 71,543	\$ 60,259	\$ 228,681	\$ 135,656

SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance as at January 1, 2010	\$ 244,435,645	\$ 9,013,334	\$ (157,629,236)	\$ 95,819,743
Private placements	23,476,409	-	(1,539,782)	21,936,627
Share-based compensation	1,698,553	1,066,709	-	2,765,262
Income tax recovery on flow-through shares	-	-	(2,513,209)	(2,513,209)
Non monetary issues	3,670,800	-	-	3,670,800
Loss	-	-	(2,721,981)	(2,721,981)
Balance as at March 31, 2010	<u>273,281,407</u>	<u>10,080,043</u>	<u>(164,404,208)</u>	<u>118,957,242</u>
Private placements	361,750	-	-	361,750
Share-based compensation	3,519,500	314,029	-	3,833,529
Loss	-	-	(7,918,978)	(7,918,978)
Balance as at June 30, 2010	<u>277,162,657</u>	<u>10,394,072</u>	<u>(172,323,186)</u>	<u>115,233,543</u>
Private placements	84,653,998	-	(4,635,084)	80,018,914
Share-based compensation	874,810	1,391,794	8,382	2,274,986
Non monetary issues	589,500	-	-	589,500
Loss	-	-	(4,625,654)	(4,625,654)
Balance as at September 30, 2010	<u>363,280,966</u>	<u>11,785,866</u>	<u>(181,575,543)</u>	<u>193,491,289</u>
Private placements	5,446,258	-	-	5,446,258
Share-based compensation	-	570,523	134,555	705,078
Income tax recovery on flow-through shares	-	-	(5,446,257)	(5,446,257)
Loss	-	-	(9,343,573)	(9,343,573)
Balance as at December 31, 2010	<u>\$ 368,727,223</u>	<u>\$ 12,356,389</u>	<u>\$ (196,230,817)</u>	<u>\$ 184,852,795</u>
Balance as at December 31, 2010	\$ 368,727,223	\$ 12,356,389	\$ (196,230,817)	\$ 184,852,795
Private placements	21,883,675	-	(1,655,019)	20,228,656
Share-based compensation	2,103,746	287,916	207,284	2,598,946
Loss	-	-	(5,335,769)	(5,335,769)
Balance as at March 31, 2011	<u>392,714,644</u>	<u>12,644,305</u>	<u>(203,014,321)</u>	<u>202,344,628</u>
Share-based compensation	2,839,910	172,720	253,702	3,266,332
Non monetary issues	48,750	-	-	48,750
Loss	-	-	(3,972,665)	(3,972,665)
Balance as at June 30, 2011	<u>395,603,304</u>	<u>12,817,025</u>	<u>\$ (206,733,284)</u>	<u>\$ 201,687,045</u>
Share-based compensation	4,595,893	746,887	-	5,342,780
Non monetary issues	73,200	-	-	73,200
Net income	-	-	1,010,647	1,010,647
Balance as at September 30, 2011	<u>\$ 400,272,397</u>	<u>\$ 13,563,912</u>	<u>\$ (205,722,637)</u>	<u>\$ 208,113,672</u>

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 and 2010

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1. Nature of operations and going concern assumption

San Gold Corporation and its subsidiaries ("the Company") is a listed public company, incorporated and domiciled in Canada. The shares of the Company are traded on the Toronto and OTCQX stock exchanges under the trading symbols "SGR" and "SGRCF", respectively. The address of the Company's corporate office is 212-1661 Portage Avenue, Winnipeg, Manitoba, R3J 3T7. The address of the Company's principal place of business is P.O. Box 1000, General Delivery, Bissett, Manitoba, R0E 0J0. The registered office of the Company is Aikins, MacAulay & Thorvaldson LLP, 30th floor, 360 Main Street, Winnipeg, Manitoba, R3C 4G1.

The Company's main business operations consist of exploring for gold primarily in the Bissett area of Manitoba, Canada and producing gold from: (i) the Rice Lake Mine; and (ii) the Hinge Mine. The Company also owns certain Mineral claims in and around the Timmins, Ontario area. The Company has begun certain minor exploration activities on these claims but these activities do not form a material portion of the business of the Company. The primary product produced by the Company is gold, which is sold by the Company as described in Note 2. Since commencing commercial production of gold, the Company has received revenue from, and anticipates that its markets will continue to be, the North American gold bullion markets.

For the nine month period ended September 30th, 2011, the Company had a comprehensive loss of \$8,297,787 (September 30th, 2010 – \$15,266,613) and a deficit of \$205,722,637 (December 31st, 2010 - \$196,230,817, January 1st, 2010 - \$157,629,236). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for exploration and development programs, general and administration costs and interest charges. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company.

These interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

2. Significant accounting policies

a) Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 28, the company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1st, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 28 discloses the impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended December 31st, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 14th, 2011, the date the Company's Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31st, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the company's Canadian generally accepted accounting principles (Canadian GAAP) annual financial statements for the year ended December 31st, 2010.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 and 2010
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2. Significant accounting policies (continued)

These interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency as it is the currency of the primary economic environment in which the transactions are undertaken. All reference to dollars (\$) are to Canadian dollars unless otherwise noted. The interim consolidated financial statements have been prepared on a historical cost basis, except for accounts receivable, marketable securities, collateral deposit, investment in associate, bank indebtedness, accounts payable, long-term debt (excluding finance leases), and net royalty obligation.

b) Accounting estimates

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the fiscal year. Critical accounting estimates and judgments are described in Note 3.

c) Bank indebtedness

The Company classifies outstanding cheques in excess of funds on deposit as bank indebtedness.

d) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as at fair value through profit or loss, available for sale, held to maturity, loans and receivables, or financial liabilities measured at amortized cost. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of financial instruments at initial recognition. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified at fair value through profit or loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Loans and receivables and financial liabilities measured at amortized cost are subsequently measured at their amortized cost, using the effective interest method.

Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net income (loss), except for derivatives that are designated as cash flow hedges. The Company presently does not have any derivative financial instruments.

The Company has designated its accounts payable, long-term debt (excluding finance leases), and net royalty obligation as financial liabilities measured at amortized cost, which are reflected on the consolidated statement of financial position at amortized cost using the effective interest method of measurement. Marketable securities have been designated at fair value through profit or loss, which are reflected on the consolidated statement of financial position at fair value. The Company has designated cash, accounts receivable, collateral deposit and bank indebtedness as loans and receivables, which are reflected on the consolidated statement of financial position at amortized cost using the effective interest method of measurement.

Transaction costs are expensed as incurred for financial instruments classified or designated at fair value through profit or loss. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 and 2010
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2. Significant accounting policies (continued)

The Company assesses impairment of all its financial assets, except those classified at fair value through profit or loss. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in net income (loss).

e) Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

f) Principles of consolidation

These interim consolidated financial statements include the financial assets and liabilities and results of operations of the Company and of its wholly owned subsidiary corporations 6493068 Canada Ltd., 6573258 Canada Ltd., and 6772684 Canada Ltd.

g) Associates

Investments in associates, where the Company has significant influence but not control, are accounted for using the equity method and are recorded at cost plus the Company's share of income or loss to date less dividends received. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognized in the consolidated statement of net income (loss) and its share of other comprehensive income (loss) of associates is included in the other comprehensive income (loss) account.

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of net income (loss).

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FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 and 2010

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2. Significant accounting policies (continued)

h) Income taxes

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the consolidated statement of financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax is recognized using the liability method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below:

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the consolidated statement of financial position date.

Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of net income (loss).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entities or in different taxable entities, and, where there is the intent to settle the balance on a net basis.

Mining Taxes

Income tax expense includes the mining taxes payable to governments that are calculated based on a percentage of taxable profit whereby taxable profit represents net income adjusted for certain items defined in the applicable legislation.

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2. Significant accounting policies (continued)

Interim Reporting

The income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

In addition to the application of the budgeted income tax rate, income tax expense in each interim period includes, in addition to other items, changes in the recognition of deferred tax assets, legislative changes and tax rate changes.

i) Revenue recognition

Revenue is recognized when all of the activities to produce the gold have been completed by the Company and the risks and rewards of ownership have been transferred. This occurs when the gold is received by the purchasers at the point of shipping from the mill. Adjustments to accounts receivable, if any, between the date of title transfer and the settlement date are recorded when determinable within "Revenue".

Dore bars and gold in process are recorded in inventory at the lower of average production cost and net realizable value.

Interest and the indemnification fee revenue are recorded on an accrual basis within "Finance income".

j) Capitalization policy for mineral properties

Exploration expenditures and near term ore development costs are expensed as incurred. Factors considered in determining whether activity at a property is near term or longer term development include: the probability of future benefit, the time horizon to expected development, and the existence of an economic plan for development. By its nature there is a significant amount of management estimate involved in this evaluation.

Property acquisition costs, and longer term development costs incurred to expand ore reserves are capitalized to mineral properties and depleted on a units-of-production basis over proven and probable reserves which are accessible by the Company. Management's estimate of gold price, recoverable proven and probable mineral reserves, operating, capital and reclamation costs are subject to risks and uncertainties affecting the recoverability of the Company's investment in mining properties.

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2. Significant accounting policies (continued)

k) Property, plant and equipment

Property, plant, and equipment are recorded at cost and depreciated over their estimated useful lives. This requires estimation of the useful life of the asset and its residual value. Property, plant, and equipment are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of property, plant, and equipment is not recoverable if the carrying amount exceeds the sum of the discounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a fixed asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known.

Property, plant, and equipment are recorded at historical cost and are amortized using the declining balance method over their estimated useful lives, as follows:

Buildings	4%
Motor vehicles	30%
Furniture and office equipment	20%
Plant and equipment	20%
Assets under finance lease	20%

l) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statement of net income (loss) in the period in which they are incurred.

m) Impairment of non-financial assets

Property, plant and equipment and mineral properties are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the consolidated statement of net income (loss).

SAN GOLD CORPORATION
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2. Significant accounting policies (continued)

n) Provisions

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material, such as closure costs.

o) Share-based compensation plan

The Company has a share-based compensation plan as described in Note 13 and Note 14. The fair value based method of accounting is applied to all share-based compensation. The fair value of the share options granted is estimated on the date of grant using the Black-Scholes option-pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Any consideration paid on exercise of the share option is credited to share capital.

p) Earnings (Loss) per share

Basic earnings (loss) per share is calculated using the daily weighted average number of shares outstanding.

Diluted earnings (loss) per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all dilutive potential common shares been issued at the beginning of the year, or when the underlying options or convertible securities were granted or issued, if later. The treasury share method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options to acquire shares.

q) Inventory

Gold inventory, which includes gold bullion, gold contained in the milling circuit and in stockpiled ore on surface, is valued at the lower of cost and net realizable value. Costs include labour, equipment costs, and operating overhead. Material and supplies inventory is valued at the lower of cost and net realizable value on a first-in first-out basis.

r) Closure Costs

The Company recognizes the fair value of a liability for an asset retirement obligation when it is incurred, if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made when the asset retirement obligation is incurred, the liability will be recognized when a reasonable estimate of fair value can be made. Upon initial recognition of the estimate of the liability for an asset retirement obligation, a corresponding asset retirement cost is recognized by increasing the carrying amount of the, related asset, which is then amortized on the same basis as the related asset. After initial measurement, period-to-period changes in the estimate of the liability for an asset retirement obligation resulting from the passage of time, changes in market discount rates, and revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized as necessary. If the fair value of an asset retirement obligation cannot be reasonably estimated, this is generally because it is not practicable within constraints of timeliness or cost to reliably measure the fair values.

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2. Significant accounting policies (continued)

s) Recent accounting pronouncements

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1st, 2013 with earlier application permitted.

IFRS 10, "Consolidated Financial Statements" (IFRS 10), replaces IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities". IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11, "Joint Arrangements" (IFRS 11), supersedes IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities—Non-monetary Contributions by Venturers". IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12, "Disclosure of Interests in Other Entities" (IFRS 12) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27, "Separate Financial Statements" and IAS 28, "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 13, "Fair Value Measurement" defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company is currently evaluating the impact of the new standards on its consolidated financial statements.

3. Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statement requires management to use estimates and judgments that affect the reported amounts of assets and liabilities, as well as revenues and expenses. The following items are determined to be the most significant.

The policies, upon which the Company's consolidated financial statements depend, are those requiring estimates of proven and probable reserves, recoverable ounces there from, capitalization of mineral properties, and assumptions of operating costs and future gold prices. Such estimates and assumptions affect the potential impairment of long-lived assets and the rate at which depletion and amortization are charged to earnings. In addition, management must estimate costs associated with mine reclamation and closure costs. Should an adjustment become necessary, it would be reported in net income (loss) in the period in which it becomes known.

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3. Critical accounting estimates and judgments (continued)

a) Mineral reserves

The process of estimating quantities of gold reserves is complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. The data for a given ore body may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, production history and the continual reassessment of the viability of ore bodies under various economic conditions. A material revision to existing reserve estimates could occur because of, among other things: revisions to geological data or assumptions; a change in the assumed gold prices; and the results of drilling and exploration activities. If estimates of reserves prove to be inaccurate, or a mining plan changes due to reductions in the price of gold or otherwise, resulting in a reduction in the reserves expected to be recovered, the Company could be required to write-down the recorded value of its plant and equipment and mine development costs, or to increase the amount of future depreciation, depletion and amortization expense, both of which would adversely affect the Company's earnings and net assets.

b) Resources, Reserves and Production

The figures for mineral resources and reserves presented in this and other documents are estimates and no assurance can be given that the anticipated level of recovery and/or grades of reserves or resources will be realized. Establishment of a gold mineral reserve and development of a gold mine does not assure a profit on the investment or recovery of costs. In addition, geological complexity, mining hazards or environmental conditions could increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels. Moreover, short-term operating factors relating to ore reserves and resources, such as the need for orderly development of an ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period. The quantity of a given mineral tends to vary in all types of deposits. Due to the nature of drilling and building reserves, small variances both positive and negative must be anticipated. Mineral resources are estimated based on samples that may or may not reflect the actual deposit. The combined effect of these factors could have material effects (negative or positive) on the Company's business, financial condition and prospects.

c) Recoverable Values

The recoverability of deferred expenditures is dependent upon: the discovery of economically recoverable mineral reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

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4. Marketable securities

	September 30, 2011	December 31, 2010	January 1, 2010
GIC, interest at 1.30% - 4.12% (December 31st, 2010 - 4.12%, January 1st, 2010 - 4.12%) paid annually, maturing April 2012 - July 2012 (December 31st, 2010 - July 2012, January 1st, 2010 - July 2012), \$83,029 pledged as security for long-term debt.	\$ 3,099,590	\$ 82,213	\$ 77,888
Common shares - Option Agreements	255,000	-	-
Warrants - Option Agreements	32,000	-	-
Short term investments	22,749,830	59,464,797	2,780,673
Silver certificates	18	21	105,513
Gold certificates	604	676	10,330,816
	\$ 26,137,042	\$ 59,547,707	\$ 13,294,890

Short term investments are comprised of the following types of securities: treasury bills, banker's acceptances, commercial paper, money market funds, guaranteed investment certificates, coupons and residuals, government bonds, term deposits and corporate bonds. The weighted yield to maturity is 1.01% (December 31st, 2010 – 1.22%, January 1st, 2010 – 2.61%) with maturities from October 2011 to February 2013 (December 31st, 2010 – January 2011 to July 2031, January 1st, 2010 – January 2010 to December 2010). The market value of the warrants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 150%, risk free interest rate of 2.1%, and expected life of 623 days. Marketable securities have been designated at fair value through profit or loss, which are reflected on the consolidated statement of financial position at fair value.

At September 30th, 2011, \$40,040 (December 31st, 2010 - \$95,429, January 1st, 2010 – \$17,951) of accrued interest was included in the market value of the short term investments. For the three month period ended September 30th, 2011, the Company recognized a gain of \$62,986 (September 30th, 2010 - \$33,143) and for the nine month period ended September 30th, 2011, a gain of \$280,076 (September 30th, 2010 - \$74,767) to adjust carrying value to published market value. These amounts are recognized as finance income on the consolidated statement of operations. Market value is determined by published price quotation and observable market inputs, including accrued interest.

5. Gold in process

	September 30, 2011	December 31, 2010	January 1, 2010
Ore stockpile	\$ 4,010,976	\$ 210,622	\$ 171,936
In process inventory	5,746,495	5,908,298	2,636,352
Finished product	486,631	-	5,841,476
	\$ 10,244,102	\$ 6,118,920	\$ 8,649,764



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6. Property, plant and equipment

	Land	Building	Motor vehicles	Furniture and office equipment	Plant and equipment	Assets under finance lease	Projects in process	Total
Cost								
At January 1, 2010	\$ 502,210	\$ 4,788,344	\$ 97,984	\$ 1,143,359	\$ 11,950,906	\$ 1,745,728	\$ 781,727	\$ 21,010,258
Additions	-	6,557,510	30,414	272,498	3,939,784	2,117,798	3,749,953	16,667,957
Disposals	-	-	-	-	(26,750)	-	-	(26,750)
At December 31, 2010	502,210	11,345,854	128,398	1,415,857	15,863,940	3,863,526	4,531,680	37,651,465
Additions	13,860	3,425,149	174,201	126,179	6,047,287	2,516,260	11,335,678	23,638,614
At September 30, 2011	516,070	14,771,003	302,599	1,542,036	21,911,227	6,379,786	15,867,358	61,290,079
Depreciation								
At January 1, 2010	\$ -	\$ 293,696	\$ 49,718	\$ 281,357	\$ 5,202,174	\$ 580,951	\$ -	\$ 6,407,896
Depreciation charge	-	452,364	18,728	195,374	1,793,935	500,523	-	2,960,924
Disposals	-	-	-	-	(13,037)	-	-	(13,037)
At December 31, 2010	-	746,060	68,446	476,731	6,983,072	1,081,474	-	9,355,783
Depreciation charge	-	416,140	28,895	148,570	2,014,819	674,125	-	3,282,549
At September 30, 2011	-	1,162,200	97,341	625,301	8,997,891	1,755,599	-	12,638,332
Net book value								
January 1, 2010	\$ 502,210	\$ 4,494,648	\$ 48,266	\$ 862,002	\$ 6,748,732	\$ 1,164,777	\$ 781,727	\$ 14,602,362
December 31, 2010	\$ 502,210	\$ 10,599,794	\$ 59,952	\$ 939,126	\$ 8,880,868	\$ 2,782,052	\$ 4,531,680	\$ 28,295,682
September 30, 2011	\$ 516,070	\$ 13,608,803	\$ 205,258	\$ 916,735	\$ 12,913,336	\$ 4,624,187	\$ 15,867,358	\$ 48,651,747

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7. Mineral properties

	SG1	Rice Lake	Hinge	Cohiba	Total
Cost					
At January 1, 2010	\$ 6,185,598	\$ 41,628,895	\$ 30,570,477	\$ -	\$ 78,384,970
Additions	-	13,869,932	25,967,140	-	39,837,072
Commissioning gold recovery	-	-	(5,885,434)	-	(5,885,434)
At December 31, 2010	6,185,598	55,498,827	50,652,183	-	112,336,608
Additions	-	8,932,967	27,789,517	3,287,504	40,009,988
At September 30, 2011	6,185,598	64,431,794	78,441,700	3,287,504	152,346,596
Depletion and impairment					
At January 1, 2010	\$ 661,555	\$ 6,146,933	\$ 1,344,545	\$ -	\$ 8,153,033
Depletion charge	-	4,080,056	4,318,145	-	8,398,201
At December 31, 2010	661,555	10,226,989	5,662,690	-	16,551,234
Depletion charge	-	2,445,488	10,038,023	-	12,483,511
At September 30, 2011	661,555	12,672,477	15,700,713	-	29,034,745
Net book value					
January 1, 2010	<u>\$ 5,524,043</u>	<u>\$ 35,481,962</u>	<u>\$ 23,340,498</u>	<u>\$ -</u>	<u>\$ 64,346,503</u>
December 31, 2010	<u>\$ 5,524,043</u>	<u>\$ 45,271,838</u>	<u>\$ 44,989,493</u>	<u>\$ -</u>	<u>\$ 95,785,374</u>
September 30, 2011	<u>\$ 5,524,043</u>	<u>\$ 51,759,317</u>	<u>\$ 62,740,987</u>	<u>\$ 3,287,504</u>	<u>\$ 123,311,851</u>

Mineral property development costs incurred to expand ore reserves are deferred and depleted on a units-of-production basis over proven and probable reserves. Revenue derived from mineral properties before full production during commissioning of a property is accounted for as a reduction of the cost of the property.

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8. Mining claims and options

Partner	Location	Agreement entered	September 30 th , 2011 Carrying Value	Commitment for option
Peter Dunlop	Beresford Lake 7 claims	Apr 2004	\$451,449 (Dec 31 st , 2010 - \$451,449, Jan 1 st , 2010 - \$431,449)	Commitments met as at September 30 th , 2011 3% Net smelter return to optioner, may be bought down by optioner
Greenbelt Gold Mines Inc.	3 km South of Rice Lake 27 claims (50% interest)	Jan 2005	\$421,200 (Dec 31 st , 2010 - \$421,200, Jan 1 st , 2010 - \$421,200)	Commitments met as at September 30 th , 2011
Strikepoint Gold Inc.	Rice Lake Environ, Manitoba 26 claims	Sep 2009	\$200,000 (Dec 31 st , 2010 - \$200,000, Jan 1 st , 2010 - \$150,000)	An exploration commitment of \$1,500,000 over a three year period to earn a 50% undivided interest in the Strike Point property
Laurion Mineral Exploration Properties	Timmins Ontario 31.5% interest in Davidson-Tisdale property and 100% ownership in North Tisdale property	Jan 2010	\$4,450,000 (Dec 31 st , 2010 - \$4,450,000, Jan 1 st , 2010 - \$nil)	North Tisdale property subject to a 2% net smelter royalty
Golden Horse Claims	Rice Lake Environ, Manitoba 4 claims, 400 Hectares	Feb 2010	\$270,800 (Dec 31 st , 2010 - \$270,800, Jan 1 st , 2010 - \$nil)	Subject to a 3% net smelter royalty, may be bought down by optioner
Canada Lithium Corporation	Timmins Ontario 50% interest in 18 claims	Sep 2010	\$589,500 (Dec 31 st , 2010 - \$589,500, Jan 1 st , 2010 - \$nil)	The properties have a 5% net profits interest with Talisman Energy Inc., and a net profits interest acquisition agreement with Falconbridge Limited where Falconbridge Limited is entitled to a one-time cash payment of 0.1% of the gold price set forth in a feasibility study leading to production on the claims multiplied by the number of recoverable ounces of gold identified in the feasibility study due at the commencement of commercial production as defined by the agreement. Falconbridge Limited is also entitled to a 0.5% net smelter royalty on all ounces produced over and above those identified in the feasibility study.
Cougar Minerals Corp.	Rice Lake, Environ 80% interest in 18 claims	June 2011	\$nil (Dec 31 st , 2010 - \$nil, Jan 1 st , 2010 - \$nil)	An exploration commitment of \$1,500,000 over a four year period and a subscription commitment of \$600,000 units of Cougar over a 3 year period.
Wildcat Exploration Ltd.	Rice Lake, Environ 80% interest in 122 claims	Aug 2011	\$250,000 (Dec 31 st , 2010 - \$nil, Jan 1 st , 2010 - \$nil)	An exploration commitment of \$5,100,000 over a four year period and a subscription commitment of \$750,000 common shares of Wildcat over a 3 year period.
Total			\$6,632,949 (Dec 31 st , 2010 - \$6,382,949, Jan 1 st , 2010 - \$1,002,649)	

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9. Investment in associate

	September 30, 2011	December 31, 2010	January 1, 2010
Investment in associate, beginning of period	\$ 1	\$ 503,165	\$ -
Subscription for share capital	483,350	-	60
Sale of mining claims and options at carrying value	-	-	738,580
Equity loss of associate	(483,350)	(503,164)	(18,033)
Share issue costs	-	-	(217,442)
Investment in associate, end of the period	\$ 1	\$ 1	\$ 503,165

The investment in associate relates to SGX Resources Inc. which began trading on the TSX Venture exchange on April 20th, 2010 under the symbol "SXR". The Company has not guaranteed obligations of SGX Resources Inc. and is not otherwise committed to provide further financial support. Should SGX Resources Inc. return to profitability, the Company will record its proportionate share of income to the extent the income exceeds unrecognized cumulative losses. Unrecognized period and cumulative losses to September 30th, 2011 were approximately \$1,439,000 and \$2,463,500 (September 30th, 2010 - \$1,141,500 and \$1,141,500), respectively.

The following summarizes financial information about the Company's share of assets, liabilities, revenue and loss of its associate:

	September 30, 2011	December 31, 2010	January 1, 2010
Assets	703,500	1,889,000	3,380,000
Liabilities	240,000	319,000	36,000
Percentage held	41%	41%	48%

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2011	2010	2011	2010
Revenue	\$ -	\$ -	\$ -	\$ -
Loss	(735,500)	(103,500)	(1,922,500)	(771,000)

10. Accounts payable and accrued liabilities

	September 30, 2011	December 31, 2010	January 1, 2010
Trade payables	\$ 9,418,315	\$ 7,650,333	\$ 3,259,764
Payroll and other compensation	2,472,078	2,541,927	1,982,007
Accruals and other payables	1,812,456	790,802	443,259
	\$ 13,702,849	\$ 10,983,062	\$ 5,685,030

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11. Long-term debt

	September 30, 2011	December 31, 2010	January 1, 2010
Term loan, repayable by \$8,238 blended monthly payments at 5.75% interest rate, secured by the collateral deposit of \$450,000, repaid May 2010.	-	-	27,993
Term loan, repayable by \$3,334 blended monthly payments at 5.75% interest rate, secured by specific equipment, repaid January 2010	-	-	23,228
Term loan, repayable by \$7,659 blended monthly payments at 7.57% interest rate, secured by specific equipment, repaid August 2011.	-	59,658	143,601
Term loan, repayable by \$8,304 blended monthly payments at 12.3% interest rate, secured by specific equipment, repaid April 2011.	-	32,400	122,211
Term loan, repayable by \$10,044 blended monthly payments at 8.73% interest rate, secured by specific equipment, due January 2012.	39,470	124,271	-
Term loan, repayable by \$13,407 blended monthly payments at 8.86% interest rate, secured by specific equipment, due January 2012.	52,665	165,754	-
Term loan, repayable by \$32,320 blended monthly payments at 7.38% interest rate, secured by specific equipment, due May 2012.	251,659	520,590	-
Term loan, repayable by \$8,986 blended monthly payments at 6.90% interest rate, secured by specific equipment, due March 2015.	334,457	-	-
Finance lease, repayable by \$20,960 blended monthly payments at 15% interest rate, secured by specific equipment, repaid January 2010	-	-	20,890
Finance lease, repayable by \$7,890 blended monthly payments at 10% interest rate, secured by specific equipment, repaid January 2010.	-	-	7,129
Finance lease, repayable by \$13,246 blended monthly payments at 6.85% interest rate, secured by specific equipment due June 2012.	103,478	214,761	355,144
Finance lease, repayable by \$12,349 blended monthly payments at 6.25% interest rate, secured by specific equipment, due February 2014.	345,158	446,575	-
Finance lease, repayable by \$7,149 blended monthly payments at 3.10% interest rate, secured by specific equipment, due August 2015.	304,530	361,592	-
Finance lease, repayable by \$62,060 blended monthly payments through November 2010 and \$16,309 blended monthly payments thereafter at 2.50%, secured by specific equipment, due August 2014.	536,065	672,151	-
Finance lease, repayable by \$14,972 blended monthly payments at 6.75% interest rate, secured by specific equipment, due March 2015.	546,828	-	-
Finance lease, repayable by \$12,604 blended monthly payments at 6.75% interest rate, secured by specific equipment, due March 2015.	460,340	-	-
Finance lease, repayable by \$12,642 blended monthly payments at 6.40% interest rate, secured by specific equipment, due May 2015.	484,627	-	-
Finance lease, repayable by \$4,909 blended monthly payments at 2.54% interest rate, secured by specific equipment, due July 2015.	210,504	-	-
Total long-term debt	3,669,781	2,597,752	700,196
Total current portion	1,389,878	1,264,791	393,377
Total long-term portion	\$ 2,279,903	\$ 1,332,961	\$ 306,819



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11. Long-term debt (continued)

a) Term loan

Principal due on term loans by year end and in aggregate is approximately as follows:

September 30, 2012	\$ 431,284
September 30, 2013	93,721
September 30, 2014	100,396
September 30, 2015	52,849
	<u>\$ 678,250</u>

b) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Principal due on finance leases by year end and in aggregate is approximately as follows:

September 30, 2012	\$ 958,594
September 30, 2013	898,700
September 30, 2014	804,732
September 30, 2015	329,505
	<u>\$ 2,991,531</u>

Interest amounting to \$106,706 (September 30th, 2010 - \$40,929) relating to the lease of capital assets are included in finance costs in the consolidated statement of net income (loss).

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12. Asset retirement obligation

	September 30, 2011	December 31, 2010	January 1, 2010
Balance at beginning of year	\$ 3,133,233	\$ 3,010,526	\$ 1,636,359
Accretion	20,763	28,500	-
Change in estimate	171,387	94,207	1,374,167
Balance at end of year	\$ 3,325,383	\$ 3,133,233	\$ 3,010,526

The mine operates under Environmental License No. 2161 S1 RR issued by Manitoba Conservation in March 1996 and amended in September 1998. The mine also has a closure and rehabilitation plan that has been accepted by Manitoba Industry, Trade, and Mines. A closure plan for the Bissett Gold Mine was submitted on September 1st, 2001. The plan covers all aspects of rehabilitation of the mine including post closure monitoring.

The Company's asset retirement obligations consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthworks, including detoxification and re-contouring, re-vegetation, water treatment and demolition. In determining the estimated costs, the Company considers such factors as changes in laws and regulations and requirements under existing permits. Such analyses are performed on an ongoing basis. The total estimated cost for the closure and post closure monitoring is \$3,300,000.

13. Share capital

Authorized: Unlimited number of common shares

Issued and fully paid, no par value: 312,509,841 common shares (December 31st, 2010 – 300,408,146, January 1st, 2010 – 267,048,730)

The Company's board of directors and shareholders have approved a stock option plan, the purpose of which is to provide employees, consultants, and directors of the Company with the opportunity to participate in the growth and development of the Company. The number of common shares reserved for issuance under the stock option plan is 31,250,984 (December 31st, 2010 – 30,040,814, January 1st, 2010 – 26,704,873).

	(#)	(\$)
Balance, January 1, 2010	267,048,730	244,435,645
Private placements	27,799,100	113,938,415
Options exercised	4,350,316	6,092,863
Non monetary issues	1,210,000	4,260,300
Balance, December 31, 2010	300,408,146	368,727,223
Private placements	7,957,700	21,883,675
Options exercised	873,329	2,103,746
Balance, March 31, 2011	309,239,175	392,714,644
Options exercised	1,237,000	2,839,910
Non monetary issues	15,000	48,750
Balance, June 30, 2011	310,491,175	395,603,304
Options exercised	1,998,666	4,595,893
Non monetary issues	20,000	73,200
Balance, September 30, 2011	312,509,841	400,272,397



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14. Options

During the nine month period ended September 30th, 2011, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. During the quarter ended September 30th, 2011, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for the grants: dividend yield of 0% (December 31st, 2010 – 0%), expected volatility of 61% (December 31st, 2010 – 65% to 70%), risk free interest rate of 2.10% (December 31st, 2010 – 2.20% to 4.02%), and expected life of 365 days to 1825 days (December 31st, 2010 – 365 days to 1825 days). The estimated forfeiture rate for options is 5.10% (December 31st, 2010 – 5.04%).

A summary of the status of the Company's share option plan as at September 30th, 2011 and December 31st, 2010 and changes during the periods then ended are as follows:

	Average Price (\$)	
Options, January 1, 2010	13,501,259	1.16
Options granted	6,030,000	3.46
Options exercised	(4,350,316)	0.81
Options expired	(779,927)	2.29
	14,401,016	2.16
Options, December 31, 2010		
Options granted	-	-
Options exercised	(873,329)	1.41
Options expired	(425,000)	0.82
	13,102,687	2.25
Options, March 31, 2011		
Options granted	4,725,000	2.66
Options exercised	(1,237,000)	1.24
Options expired	(441,676)	2.44
	16,149,011	2.45
Options, June 30, 2011		
Options granted	700,000	3.28
Options exercised	(1,998,666)	1.34
Options expired	(158,334)	2.99
	14,692,011	2.62
Options, September 30, 2011		
Options vested, September 30, 2011	5,178,644	2.18
	September 30, 2011	December 31, 2010
Weighted average remaining life (years)	3.49	3.05

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14. Options (continued)

Exercise Price	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Outstanding Strike Price	Vested	Remaining Vested Contractual Life	Weighted Average Vested Strike Price
\$1 to 2	3,814,343	1.95	\$ 1.31	2,947,667	1.85	\$ 1.32
2 to 3	3,897,668	4.42	2.52	347,666	4.16	2.47
3 to 4	6,930,000	3.82	3.41	1,866,645	3.34	3.46
4 to 5	50,000	3.64	4.36	16,666	3.64	4.36
\$1 to 5	14,692,011	3.49	\$ 2.62	5,178,644	2.55	\$ 2.18

15. Contributed surplus

Changes in contributed surplus consisted of the following:

Contributed surplus, January 1, 2010	\$ 9,013,334
Options issued	5,898,587
Options exercised	(2,547,150)
Options expired	(8,382)
Contributed surplus, December 31, 2010	<u>\$ 12,356,389</u>
Options issued	1,362,816
Options exercised	(867,616)
Options expired	(207,284)
Contributed surplus, March 31, 2011	<u>\$ 12,644,305</u>
Options issued	1,727,648
Options exercised	(1,301,226)
Options expired	(253,702)
Contributed surplus, June 30, 2011	<u>\$ 12,817,025</u>
Options issued	2,795,652
Options exercised	(1,923,014)
Options expired	(125,751)
Contributed surplus, September 30, 2011	<u>\$ 13,563,912</u>

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16. Operations

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Mine production costs	\$ 14,515,068	\$ 7,244,620	\$ 42,442,139	\$ 32,403,298
Amortization of plant and equipment	1,269,245	720,543	3,282,549	1,838,976
Depletion of mineral properties	4,956,566	1,784,094	12,483,511	6,500,593
	\$ 20,740,879	\$ 9,749,257	\$ 58,208,199	\$ 40,742,867

17. General and administrative

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Share-based compensation	\$ 2,669,901	\$ 1,791,238	\$ 5,760,365	\$ 5,328,063
Other	2,419,783	2,311,821	6,595,401	5,669,486
	\$ 5,089,684	\$ 4,103,059	\$ 12,355,766	\$ 10,997,549

18. Finance income and costs

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Royalty indemnification fee	\$ 63,788	\$ 63,788	\$ 191,364	\$ 191,364
Royalty interest income	1,967,121	1,967,707	5,901,365	5,903,120
Investment income	121,877	79,544	473,846	303,906
Finance income	\$ 2,152,786	\$ 2,111,039	\$ 6,566,575	\$ 6,398,390
Royalty expense	1,967,121	1,967,708	5,901,365	5,903,123
Finance income - net	185,665	143,331	665,210	495,267
Interest expense	\$ 108,020	\$ 65,554	\$ 332,345	\$ 137,399
Accretion of asset retirement obligation	6,228	6,409	20,763	25,198
Finance costs	\$ 114,248	\$ 71,963	\$ 353,108	\$ 162,597

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19. Income taxes

The provision for income taxes reflects an effective tax rate, which differs from the combined Canadian federal and provincial corporate tax rates for the following reasons:

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Current tax expense	\$ -	\$ -	\$ -	\$ -
Deferred tax expense (recovery)	-	-	-	(5,568,350)
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,568,350)</u>

The actual effective tax rate for the three month period ended September 30th, 2011 is 0% (September 30th, 2010 – 0%). The actual effective tax rate for the nine month period ended September 30th, 2011 is 0% (September 30th, 2010 – 27%). The change in the effective tax rate is due to a deferred tax recovery being recognized in the first quarter of 2010 in respect of flow-through expenditures renounced to flow-through shareholders. No renouncement of expenditures was made in the nine month period ended September 30th, 2011.

The Company has issued flow-through shares to finance certain of its exploration activities. The Company intends to renounce expenditures totaling the amount of the purchase price of the flow-through shares issued to the purchasing shareholders and as a result, tax deductibility of these costs will not be available to the Company.

20. Related party transactions

Wynne Mining Ltd., Wynne Drilling Ltd., Wynne's Place Ltd. and Hotel San Antonio

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Accounts receivable (payable), beginning of the period	\$ (954,345)	\$ 2,803	\$ (484,172)	\$ (29,967)
Expenses at exchange amount	(4,971,499)	(3,499,081)	(13,404,765)	(7,926,714)
GST on services	(228,119)	(160,252)	(608,007)	(345,754)
Payments issued	5,555,365	3,242,556	13,898,347	7,888,461
Accounts receivable (payable), end of the period	<u>\$ (598,598)</u>	<u>\$ (413,974)</u>	<u>\$ (598,598)</u>	<u>\$ (413,974)</u>
Prepaid expenses	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>

During the quarter, the Company purchased goods and services for the sum of \$4,971,499 (September 30th, 2010 - \$3,499,081) and for the nine month period ended September 30th, 2011, the Company purchased goods and services for the sum of \$13,404,765 (September 30th, 2010 - \$7,926,714) from Wynne Mining Ltd., Wynne's Place Ltd., Hotel San Antonio, and Wynne Drilling Ltd., (corporations controlled by a Director and Chairman of the Company). These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These services were expensed or capitalized in the period, forming part of direct exploration expenses, general & administrative expenses, or operational expenses on the Company's consolidated statements of operations and deficit. The amounts due to related parties on September 30th, 2011 of \$598,598 (December 31st, 2010 – \$484,172) are included in the



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20. Related party transactions (continued)

accounts payable on the Company's consolidated statement of financial position. The \$200,000 prepaid expense balance arises contractually as a retainer for ongoing services from Wynne Drilling Ltd.

The Company undertakes transactions in the normal course of business with other related parties. These transactions are recognized at the exchange amount. General and administrative expenses for the quarter ended September 30th, 2011 include \$17,000 (September 30th, 2010 - \$145,930) and for the nine month period ended September 30th, 2011 include \$45,500 (September 30th, 2010 - \$200,930) for fees paid to companies controlled by directors for various consulting and managerial work. Exploration expense includes \$400,000 to a related party for work done according to an agreement between the parties (September 30th, 2010 - \$nil).

Accounts receivable includes \$121,950 (December 31st, 2010 - \$123,000) due from SGX Resources Inc. The amount is the value of common shares of the Company issued to SGX Resources Inc.

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly and indirectly, include any director (whether executive or otherwise) of the Company.

	Three Month Period Ended		Nine Month Period Ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Salaries and other short-term employee benefits	\$ 383,750	\$ 207,500	\$ 1,081,749	\$ 631,500
Share-based payments	1,910,877	844,820	3,644,363	2,573,671
	<u>2,294,627</u>	<u>1,052,320</u>	<u>4,726,112</u>	<u>3,205,171</u>

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21. Net royalty obligation

	September 30, 2011	December 31, 2010	January 1, 2010
Restricted accrued interest	\$ 4,783,028	\$ 7,777,292	\$ 7,439,926
Promissory note	127,805,937	128,692,192	123,123,675
	<u>\$ 132,588,965</u>	<u>\$ 136,469,484</u>	<u>\$ 130,563,601</u>
Current portion of deferred revenue	255,152	255,152	255,152
Current portion of royalty obligation	5,975,358	9,781,883	2,941,098
Deferred revenue	944,591	1,135,956	1,391,109
Royalty obligation	127,594,123	127,668,116	128,603,032
	<u>\$ 134,769,224</u>	<u>\$ 138,841,107</u>	<u>\$ 133,190,391</u>
Net royalty obligation	<u>\$ 2,180,259</u>	<u>\$ 2,371,623</u>	<u>\$ 2,626,790</u>

During the year ended December 31st, 2010, the annual royalties on the 2007 royalty sale were amended to be payable at rates ranging from \$72.05 to \$349.83 per ounce of gold produced during the period of the agreement to the later of December 31st, 2017 and five years after the end of commercial production from the mine. During the year ended December 31st, 2010, the annual royalties on the 2006 royalty sale were amended to be payable at rates ranging from \$29.26 to \$310.84 per ounce of gold produced during the period of the agreement to the later of December 31st, 2016 and five years after the end of commercial production from the mine. During the year ended December 31st, 2010, the annual royalties on the 2005 royalty sale were amended to be payable at rates ranging from \$5.00 to \$100.00 per ounce of gold produced during the period of the agreement to the later of December 31st, 2015 and five years after the end of commercial production from the mine. During the term of the agreements, the Company is entitled to have amounts held under the restricted promissory notes used to make payments under the royalty obligations.

Under certain circumstances, 100% subsidiaries of Rice Lake Gold Corporation will have the right to purchase ("Call") the equity of the holder of the royalties or right to receive the royalties at an amount no greater than the fair market value thereof at the time of the Call. The Call price will be paid from the balance owing to Rice Lake Gold Corporation under the promissory note. Under certain circumstances, the purchaser of the royalties will have the right to sell ("Put") their interest in the royalty to the Company at an amount no greater than the fair market value thereof at the time of the Put. However, such right is subject to the subsidiaries of Rice Lake Gold Corporation's pre-emptive right to exercise the Call in advance of any Put being exercised and completed.

In addition to the royalty, Rice Lake Gold Corporation has granted a net profit interest ("NPI") for the years 2011 to 2017 inclusive. Under the commitment, minimum gold price thresholds of \$875, \$1,075, and \$1,275 per ounce trigger NPI levels of 6%, 6.75% and 7% respectively. Under the 2005 and 2006 commitments, minimum gold prices of \$875, \$1,075, and \$1,275 per ounce trigger NPI levels of 1%, 2%, and 3% respectively. No NPI is payable until Rice Lake Gold Corporation recovers its capital invested including reserve and interest charges.



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22. Earnings (Loss) per share

The Company determines basic earnings (loss) per common share on the weighted average number of outstanding common shares for the period.

Net income available to common shareholders for the quarter ended September 30th, 2011 is \$1,010,647 (September 30th, 2010 - Net Loss - \$4,625,654). Net loss available to common shareholders for the for the nine month period ended September 30th, 2011 is \$8,297,787 (September 30th, 2010 - \$15,266,613).

	Three Month Period Ended		Nine Month Period Ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Weighted basic shares outstanding	311,339,001	291,886,424	307,869,004	279,353,462
Weighted diluted shares outstanding	314,806,937	291,886,424	307,869,004	279,353,462

The following securities were not included in the diluted net income per share calculation as the effect would have been anti-dilutive:

Nine Month Period Ended	Exercise /	Number of shares
	conversion price	if converted or
		exercised
Share options - September 30, 2011	\$ 2.62	14,692,011
Share options - September 30, 2010	\$ 2.06	13,837,685

Three Month Period Ended	Exercise /	Number of shares
	conversion price	if converted or
		exercised
Share options - September 30, 2011	\$ 3.42	6,980,000
Share options - September 30, 2010	\$ 2.06	13,837,685



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23. Risk management and fair values

The Company's risk management policies are typically manifested as part of the day to day management of operations. As management becomes aware of risks, the functioning of control procedures is evaluated both directly and through consultation with employees, consultants and third parties with a judgment on the cost and benefit of different courses of action as well as the impact on risk and fair value. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. These risks include, and the actions taken to manage them are as follows:

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial commitments as they become due. The Company's main sources of liquidity are its operations and external borrowings and issuance of capital. The Company ensures that there is sufficient working capital and available credit facilities to meet its ongoing current obligations.

The following are the estimated maturities of the Company's financial liabilities from continuing operations:

	Total	1 year	2 years	3 years	4 years
Accounts payable and accrued liabilities	13,702,849	13,702,849	-	-	-
Term Loans	678,250	431,284	93,721	100,396	52,849
Finance Leases	2,991,531	958,594	898,700	804,732	329,505
	\$ 17,372,630	\$ 15,092,727	\$ 992,421	\$ 905,128	\$ 382,354

The Company's royalty obligation will be funded by the restricted promissory note.

Credit risk

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and reviews credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Market Risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. In general, the risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which the investments mature.

The Company only invests in high credit quality debtors including the Government of Canada and Provinces of Canada.

The Company does not recognize any allowance for doubtful accounts and has no past due receivables.



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23. Risk management and fair values (continued)

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company may enter into forward exchange contracts to manage part of the foreign exchange risk exposures relating to customer accounts receivable balances and trade accounts payable denominated in U.S. currency.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. Gold prices are affected by numerous factors such as the sale or purchase by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and other foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world.

Fair values

The fair values of the Company's current financial assets and liabilities (accounts receivable, bank indebtedness, and accounts payable), approximate their recorded values as at period end due to their short-term nature. The fair value of the marketable securities is based on a published source and management has estimated that the fair value of the collateral deposit approximates its book value.

The fair value of the Company's long-term debt (excluding finance leases) for the period ended September 30th, 2011 is \$678,250 (December 31st, 2010 - \$902,673, January 1st, 2010 - \$317,033). The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms and conditions.

The cash flows associated with the net royalty obligation are equal. The net fair value of the net royalty obligation is \$nil (December 31st, 2010 - \$nil).

The fair value hierarchy of financial instruments measured at fair value on the consolidated statement of financial position is as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Financial assets			
Marketable securities (Level 1)	\$ 15,334,902	\$ 40,873,874	\$ 10,436,329
Marketable securities (Level 2)	10,802,140	18,673,833	2,858,561
	<u>\$ 26,137,042</u>	<u>\$ 59,547,707</u>	<u>\$ 13,294,890</u>

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.



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24. Capital management

The Company's total capital of \$211,783,453 (December 31st, 2010 - \$187,450,547, January 1st, 2010 - \$96,519,939) consists of \$400,272,397 (December 31st, 2010 - \$368,727,223, January 1st, 2010 - \$244,435,645) of share capital, \$13,563,912 (December 31st, 2010 - \$12,356,389, January 1st, 2010 - \$9,013,334) of contributed surplus and an offsetting accumulated deficit of \$205,722,637 (December 31st, 2010 - \$196,230,817, January 1st, 2010 - \$157,629,236). The majority of capital funding has therefore come by way of share issuance. The Company also considers its long term debt as part of its capital structure in the amount of \$3,669,781 (December 31st, 2010 - \$2,597,752, January 1st, 2010 - \$700,196).

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the price of capital in proportion to risk and market levels for similar products. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company can issue new shares, return shares to shareholders, sell assets, buy back debt or issue new debt and / or any combination thereof.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

25. Commitments

The Bissett mine operates under a Mining Lease (ML 063) granted by the Manitoba Industry, Trade and Mines for a period of 21 years commencing April 1st, 1992. A license fee of \$20,957 is payable annually to the Province of Manitoba.

In addition, the Company is potentially subject to regular audits from federal and provincial tax authorities relating to income, capital, and commodity taxes and as a result of these audits may receive assessments or reassessments. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Company's financial position, results of operations, or the ability to carry on any of its business activities.

To satisfy the closure plan described in Note 12, the Company has agreed to provide a cheque, bond, or letter of credit in the amount of \$40,000 as well as a pledge of the current estimated salvage value of mine assets to cover the calculated value of mine closure and post closure monitoring costs.

The Company has entered into lease agreements for the use of office space. The leases expire on September 30th, 2016. Minimum lease payments over the next five years are as follows:

December 31, 2011	\$	43,771
December 31, 2012		175,085
December 31, 2013		174,593
December 31, 2014		173,117
December 31, 2015		43,279

26. Defined contribution pension plan

Effective May 1, 2010, the Company provides a defined contribution plan for its employees. The Company is responsible for contributing 3% of the employees' earnings to the plan. The Company's contributions to the plan, which are recognized in the year earned by the employee and treated in the same manner as the related compensation, were \$448,434 (September 30th, 2010 - \$169,187) for the nine months ended September 30th, 2011 and \$164,312 for the three months ended September 30th, 2011 (September 30th, 2010 - \$118,006).

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27. Net change in non-cash working capital

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Accounts receivable	\$ 4,664,241	\$ (1,367,243)	\$ (5,470,940)	\$ (2,604,148)
Supply inventory	(574,592)	(213,223)	(1,778,589)	(889,386)
Gold in process	(1,108,927)	(6,335,446)	(4,125,182)	(472,805)
Prepaid expenses	(381,785)	(247,451)	(354,501)	(272,678)
Collateral deposit	-	3,356	-	51,221
Restricted accrued interest	(1,967,122)	(1,967,706)	2,994,264	1,536,806
Royalty obligation	1,967,123	1,967,708	(2,994,263)	(1,536,802)
Accounts payable	(2,030,732)	1,916,302	2,719,788	2,775,226
	\$ 568,206	\$ (6,243,703)	\$ (9,009,423)	\$ (1,412,566)

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28. First time adoption of IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. The interim consolidated financial statements, for the period ended March 31 2011, were the first the Company has prepared in accordance with International Financial Reporting Standards (IFRS).

Accordingly, the Company has prepared interim consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1st, 2011. In preparing these interim consolidated financial statements, the Company's opening statement of financial position was prepared as at January 1st, 2010, the Company's date of transition to IFRS. This note explains how the transition from GAAP to IFRS has affected the Company's financial position, financial performance, and cash flows as set out in the following tables and notes.

IFRS election options and mandatory exception

The Company has applied the following transition elections and exceptions to full retrospective application of IFRS:

- i) Business combinations: IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, to a specific date prior to the transition date or prospectively from the transition date. Full retrospective application of IFRS 3 would require restatement of all business combinations that occurred prior to the transition date.

The Company has applied the business combinations exemption in IFRS 1 and as a result has not retrospectively applied IFRS 3 to any business combinations that took place prior to the transition date of January 1st, 2010.

- ii) Borrowing costs: This exemption allows an entity to adopt IAS 23, *Borrowing Costs*, prospectively to construction projects for which the capitalization commencement date is after January 1st, 2010 or it may elect any date earlier than January 1st, 2010 for transition.

The Company has elected to apply the borrowing cost exemption prior to January 1st, 2010 and as a result will apply IAS 23 to qualifying properties for which the commencement date for capitalization is January 1st, 2010 or later.

- iii) Share-based payments: This exemption allows first-time adopters to not apply IFRS 2, *Share-based payments*, to equity instruments that were granted prior to November 7th, 2002. It also allows the first-time adopter to not apply IFRS 2 to equity instruments granted after November 7th, 2002 that vested before transition to IFRS.

The Company has elected this exemption and as a result will only apply IFRS 2 for share-based payments that were granted after November 7th, 2002, and had not vested at January 1st, 2010.

- iv) Asset retirement obligations: This exemption allows a first-time adopter to calculate the asset retirement obligation on the transition date in accordance with IFRS, discount the liability back to the date when it first arose and depreciate the related asset to its carrying amount on the transition date.

In the absence of this exemption, entities would need to determine what the change in the asset retirement obligation each reporting period would have been since the liability was incurred and make corresponding adjustments to depreciation at the transition date. The Company elected to apply this exemption on transition as a result of the changes in accounting for asset retirement obligations.

- v) Compound financial instruments: This exemption applies when a compound financial instrument is split into separate liability and equity components and the liability is no longer outstanding. Under the exemption, if the liability component is no longer outstanding, a first-time adopter does not have to retrospectively separate the liability from the equity component.

The Company has elected to apply this exemption as convertible debentures issued in 2006 and 2008 were redeemed and/or converted with the related liability component no longer being outstanding at January 1st, 2010.

- vi) 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. Estimates under IFRS at January 1st, 2010 are consistent with estimates made for that same date under Canadian GAAP.

SAN GOLD CORPORATION
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Reconciliation of GAAP to IFRS

(i) Reconciliation of consolidated statement of financial position as previously reported under Canadian GAAP to IFRS for January 1, 2010

	Canadian GAAP		IFRS
Ref	January 1, 2010	Effect of conversion to IFRS	January 1, 2010
CURRENT ASSETS			
Accounts receivable	\$ 3,607,864	\$ -	\$ 3,607,864
Marketable securities	13,294,890	-	13,294,890
Supply inventory	1,680,699	-	1,680,699
Gold in process	8,649,764	-	8,649,764
Prepaid expenses	460,086	-	460,086
Restricted accrued interest	e 7,439,926	(7,439,926)	-
	<u>35,133,229</u>	<u>(7,439,926)</u>	<u>27,693,303</u>
NON-CURRENT ASSETS			
Property, plant and equipment	14,602,362	-	14,602,362
Mineral properties	a 62,900,439	1,446,064	64,346,503
Collateral deposit	51,221	-	51,221
Mining claims and options	1,002,649	-	1,002,649
Promissory note	e 123,123,675	(123,123,675)	-
Investment in associate	503,165	-	503,165
	<u>202,183,511</u>	<u>(121,677,611)</u>	<u>80,505,900</u>
	<u>\$ 237,316,740</u>	<u>\$ (129,117,537)</u>	<u>\$ 108,199,203</u>
CURRENT LIABILITIES			
Bank indebtedness	\$ 356,918	\$ -	\$ 356,918
Accounts payable and accrued liabilities	5,685,030	-	5,685,030
Current portion of deferred revenue	e 255,152	(255,152)	-
Current portion of long-term debt	393,377	-	393,377
Current portion of royalty obligation	e 2,941,098	(2,941,098)	-
	<u>9,631,575</u>	<u>(3,196,250)</u>	<u>6,435,325</u>
NON-CURRENT LIABILITIES			
Asset retirement obligation	a 1,636,359	1,374,167	3,010,526
Deferred revenue	e 1,391,109	(1,391,109)	-
Long-term debt	306,819	-	306,819
Net royalty obligation	e -	2,626,790	2,626,790
Royalty obligation	e 128,603,032	(128,603,032)	-
	<u>131,937,319</u>	<u>(125,993,184)</u>	<u>5,944,135</u>
EQUITY			
Share capital	b 238,989,388	5,446,257	244,435,645
Contributed surplus	9,013,334	-	9,013,334
Deficit	a,b (152,254,876)	(5,374,360)	(157,629,236)
	<u>95,747,846</u>	<u>71,897</u>	<u>95,819,743</u>
	<u>\$ 237,316,740</u>	<u>\$ (129,117,537)</u>	<u>\$ 108,199,203</u>

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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(ii) Reconciliation of consolidated statement of financial position as previously reported under Canadian GAAP to IFRS for December 31, 2010

	Ref	Canadian GAAP December 31, 2010	Effect of conversion to IFRS	IFRS December 31, 2010
CURRENT ASSETS				
Accounts receivable		\$ 8,594,032	\$ -	\$ 8,594,032
Marketable securities		59,547,707	-	59,547,707
Supply inventory		2,471,730	-	2,471,730
Gold in process		6,118,920	-	6,118,920
Prepaid expenses		467,659	-	467,659
Restricted accrued interest	e	7,777,292	(7,777,292)	-
		84,977,340	(7,777,292)	77,200,048
NON-CURRENT ASSETS				
Property, plant and equipment		28,295,682	-	28,295,682
Mineral properties	a	94,364,655	1,420,719	95,785,374
Mining claims and options		6,382,949	-	6,382,949
Promissory note	e	128,692,192	(128,692,192)	-
Investment in associate		1	-	1
		257,735,479	(127,271,473)	130,464,006
		\$ 342,712,819	\$ (135,048,765)	\$ 207,664,054
CURRENT LIABILITIES				
Bank indebtedness		\$ 3,725,589	\$ -	\$ 3,725,589
Accounts payable and accrued liabilities		10,983,062	-	10,983,062
Current portion of deferred revenue	e	255,152	(255,152)	-
Current portion of long-term debt		1,264,791	-	1,264,791
Current portion of royalty obligation	e	9,781,883	(9,781,883)	-
		26,010,477	(10,037,035)	15,973,442
NON-CURRENT LIABILITIES				
Asset retirement obligation	a	1,803,481	1,329,752	3,133,233
Deferred revenue	e	1,135,956	(1,135,956)	-
Long-term debt		1,332,961	-	1,332,961
Net royalty obligation	e	-	2,371,623	2,371,623
Royalty obligation	e	127,668,116	(127,668,116)	-
		131,940,514	(125,102,697)	6,837,817
EQUITY				
Share capital	b	360,889,851	7,837,372	368,727,223
Contributed surplus		12,356,389	-	12,356,389
Deficit	a,b	(188,484,412)	(7,746,405)	(196,230,817)
		184,761,828	90,967	184,852,795
		\$ 342,712,819	\$ (135,048,764)	\$ 207,664,054

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 and 2010
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(iii) Reconciliation of consolidated statement of financial position as previously reported under Canadian GAAP to IFRS for September 30, 2010

	Ref	Canadian GAAP September 30, 2010	Effect of conversion to IFRS	IFRS September 30, 2010
CURRENT ASSETS				
Cash		\$ 5,195,178	\$ -	\$ 5,195,178
Accounts receivable		6,695,360	-	6,695,360
Marketable securities		70,503,338	-	70,503,338
Supply inventory		2,570,085	-	2,570,085
Gold in process		9,122,569	-	9,122,569
Prepaid expenses		732,764	-	732,764
Restricted accrued interest	e	5,903,120	(5,903,120)	-
		100,722,414	(5,903,120)	94,819,294
NON-CURRENT ASSETS				
Property, plant and equipment		24,887,827	-	24,887,827
Mineral properties	a	83,002,663	1,523,317	84,525,980
Collateral deposit		-	-	-
Mining claims and options		6,382,949	-	6,382,949
Promissory note	e	127,622,503	(127,622,503)	-
Investment in associate		1	-	1
		241,895,943	(126,099,186)	115,796,757
		\$ 342,618,357	\$ (132,002,306)	\$ 210,616,051
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		\$ 8,460,256	\$ -	\$ 8,460,256
Current portion of deferred revenue	e	255,152	(255,152)	-
Current portion of long-term debt		1,382,994	-	1,382,994
Current portion of royalty obligation	e	3,065,740	(3,065,740)	-
		13,164,142	(3,320,892)	9,843,250
NON-CURRENT LIABILITIES				
Asset retirement obligation	a	1,761,700	1,451,358	3,213,058
Deferred revenue	e	1,199,744	(1,199,744)	-
Long-term debt		1,633,025	-	1,633,025
Net royalty obligation	e	-	2,435,429	2,435,429
Royalty obligation	e	131,440,416	(131,440,416)	-
		136,034,885	(128,753,373)	7,281,512
EQUITY				
Share capital	b	360,889,851	2,391,115	363,280,966
Contributed surplus		11,785,866	-	11,785,866
Deficit	a,b	(179,256,387)	(2,319,156)	(181,575,543)
		193,419,330	71,959	193,491,289
		\$ 342,618,357	\$ (132,002,306)	\$ 210,616,051

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(iv) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the year ended December 31, 2010

For the year ended December 31, 2010			
<u>Ref</u>	<u>Canadian GAAP</u>	<u>Effect of conversion to IFRS</u>	<u>IFRS</u>
REVENUE	\$ 57,950,671	\$ -	\$ 57,950,671
OPERATIONS			
Operations	c 50,598,703	11,336,176	61,934,879
Asset retirement accretion	d 167,122	(167,122)	-
Amortization of property, plant and equipment	a,c 2,937,975	(2,937,975)	-
Depletion of mineral properties	c 8,278,651	(8,278,651)	-
LOSS FROM OPERATIONS	4,031,780	(47,572)	3,984,208
Exploration	12,146,690	-	12,146,690
General and administrative	c 8,036,350	6,033,142	14,069,492
Royalty expense	c 7,870,825	(7,870,825)	-
Interest expense	c 237,444	(237,444)	-
Share-based compensation	c 6,033,142	(6,033,142)	-
LOSS BEFORE OTHER REVENUE	38,356,231	(8,155,841)	30,200,390
OTHER REVENUE AND EXPENSES			
Indemnification fee	c 255,153	(255,153)	-
Interest income	c 8,414,351	(8,414,351)	-
Finance income - net	c -	798,679	798,679
Finance cost	c,d -	(265,944)	(265,944)
Equity loss of associate	(503,164)	-	(503,164)
Loss on disposal of property, plant and equipment	(7,714)	-	(7,714)
LOSS BEFORE INCOME TAX	30,197,605	(19,072)	30,178,533
Income tax recovery (expense)	b 7,959,465	(2,391,115)	5,568,350
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ 22,238,140	\$ 2,372,043	\$ 24,610,183
LOSS PER COMMON SHARE: Basic & diluted	\$ 0.08	\$ 0.01	\$ 0.09

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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(v) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the nine month period ended September 30, 2010

For the nine month period ended September 30, 2010				
	<u>Ref</u>	<u>Canadian GAAP</u>	<u>Effect of conversion to IFRS</u>	<u>IFRS</u>
REVENUE		\$ 40,475,961	\$ -	\$ 40,475,961
OPERATIONS				
Operations	c	32,403,298	8,339,569	40,742,867
Asset retirement accretion	d	125,341	(125,341)	-
Amortization of property, plant and equipment	a,c	1,838,976	(1,838,976)	-
Depletion of mineral properties	c	6,400,513	(6,400,513)	-
LOSS FROM OPERATIONS		292,167	(25,261)	266,906
Exploration		9,392,300	-	9,392,300
General and administrative	c	5,669,486	5,328,063	10,997,549
Royalty expense	c	5,903,123	(5,903,123)	-
Interest expense	c	137,399	(137,399)	-
Share-based compensation	c	5,328,063	(5,328,063)	-
LOSS BEFORE OTHER REVENUE		26,722,538	(6,065,783)	20,656,755
OTHER REVENUE AND EXPENSES				
Indemnification fee	c	191,364	(191,364)	-
Interest income	c	6,207,026	(6,207,026)	-
Finance income - net	c	-	495,267	495,267
Finance cost	c,d	-	(162,597)	(162,597)
Equity loss of associate		(503,164)	-	(503,164)
Loss on disposal of property, plant and equipment		(7,714)	-	(7,714)
LOSS BEFORE INCOME TAX		20,835,026	(63)	20,834,963
Income tax recovery (expense)	b	7,959,465	(2,391,115)	5,568,350
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		\$ 12,875,561	\$ 2,391,052	\$ 15,266,613
LOSS PER COMMON SHARE: Basic & diluted		\$ 0.05	\$ 0.01	\$ 0.06

SAN GOLD CORPORATION
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(vi) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the three month period ended September 30, 2010

For the three month period ended September 30, 2010				
	<u>Ref</u>	<u>Canadian GAAP</u>	<u>Effect of conversion to IFRS</u>	<u>IFRS</u>
REVENUE		\$ 13,881,005	\$ -	\$ 13,881,005
OPERATIONS				
Operations	c	7,240,558	2,508,699	9,749,257
Asset retirement accretion	d	41,780	(41,780)	-
Amortization of property, plant and equipment	a,c	724,605	(724,605)	-
Depletion of mineral properties	c	<u>1,754,270</u>	<u>(1,754,270)</u>	<u>-</u>
LOSS (INCOME) FROM OPERATIONS		(4,119,792)	(11,956)	(4,131,748)
Exploration		4,717,997	-	4,717,997
General and administrative	c	2,311,821	1,791,238	4,103,059
Royalty expense	c	1,967,708	(1,967,708)	-
Interest expense	c	69,618	(69,618)	-
Share-based compensation	c	<u>1,791,238</u>	<u>(1,791,238)</u>	<u>-</u>
LOSS BEFORE OTHER REVENUE		6,738,590	(2,049,282)	4,689,308
OTHER REVENUE AND EXPENSES				
Indemnification fee	c	63,788	(63,788)	-
Interest income	c	2,047,251	(2,047,251)	-
Finance income - net	c	-	143,331	143,331
Finance cost	c,d	-	(71,963)	(71,963)
Equity loss of associate		-	-	-
Loss on disposal of property, plant and equipment		<u>(7,714)</u>	<u>-</u>	<u>(7,714)</u>
LOSS BEFORE INCOME TAX		4,635,265	(9,611)	4,625,654
Income tax recovery (expense)	b	<u>-</u>	<u>-</u>	<u>-</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		\$ <u>4,635,265</u>	\$ <u>(9,611)</u>	\$ <u>4,625,654</u>
LOSS PER COMMON SHARE: Basic & diluted		\$ <u>0.02</u>	\$ <u>-</u>	\$ <u>0.02</u>

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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Notes to reconciliations

IFRS adjustments

a) Asset retirement obligations

IFRS requires the asset reclamation obligations costs and obligations to be measured based on management's best estimate of future expenditures and adjustments to the liability are made in each period for changes in the timing or amount of cash flow, changes in the discount rate and the accretion expense. The estimated future cash flows are discounted at the period end risk free rate and upward revisions in the liability are not tracked separately as is required under Canadian GAAP.

The adjustment on transition to IFRS measures the asset retirement obligation in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). As described above, the Company applied the IFRS 1 exemption to not retrospectively apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. This optional exemption allows for a short-cut method in order to record an adjustment for the opening depreciated cost of the decommissioning and restoration asset under IFRS on transition. Accordingly, the Company recorded an adjustment to increase the asset retirement obligation asset (included within mineral properties) by \$1,446,064 and the asset retirement liability by \$1,374,167 for a total adjustment that reduced the deficit by \$71,897 on transition to IFRS.

Under IFRS, the asset retirement obligation is required to be recalculated using a new discount rate at each reporting period. The change in the discount rate is adjusted through the asset retirement asset and liability. As a result in the change in the discount rate, depletion of the asset retirement asset increased by \$100,080 and \$119,550 and the accretion expense decreased by approximately \$100,143 and \$138,622 for the nine months ended September 30th, 2010 and year ended December 31st, 2010, respectively.

b) Flow-through shares

Under IFRS, the Company will record a liability for the difference between the proceeds received and the market price of the Company's shares on the date of the transaction ("premium"). This premium will be recognized as income upon the related renouncement of expenditures. At this point, the Company will also record the deferred tax liability associated with the renouncement of the tax benefits. Any difference between the deferred tax liability and the original premium liability will be recorded in the statement of income.

The adjustment on transition to IFRS to record the change in accounting for flow-through shares is computed as the difference between the tax attributes renounced to subscribers (and recorded against equity for Canadian GAAP and the premium on the flow through share issuance (which is the only amount that should be recorded for IFRS). Under IFRS, the difference is recorded to future tax expense, which impacts accumulated retained earnings. Accordingly, the Company recorded an adjustment on transition to increase share capital and retained deficit by \$5,446,257 to record the effects of this policy change on historical flow-through issuances.

The Company also issued flow through shares in the first quarter of 2010. Upon renouncing these expenditures, an income tax expense is recorded as the difference between the premium and value of tax attributes renounced to shareholders. As a result of the issuance and subsequent renunciation, share capital and retained deficit increased by \$2,391,115 and \$7,837,372 for the period ended September 30th, 2010 and year ended December 31st, 2010, respectively.

SAN GOLD CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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IFRS reclassifications

c) Expense classification by function

IFRS requires that expenses be classified by function or nature. The Company will report expenses by function and has accordingly reclassified certain expenses on the face of the statement of comprehensive income to comply with this presentation.

d) Accretion expense

In accordance with IFRS, accretion expense is presented as a financing cost. Accretion expense was previously reported as an operating cost.

e) Net royalty obligation

Upon transition to IFRS, the Company has changed the presentation of items previously shown as gross under Canadian GAAP. Under IFRS, even when more than two parties are involved in the arrangement net presentation is required provided the criteria of offsetting is met, while under Canadian GAAP the Company's policy was such that netting presentation was only permitted where two parties were involved. No gain or loss has been recognized as a result of this presentation difference, as the recognition and measurement treatment of the different components of the transaction has not changed upon transition. The royalty agreements have not been modified.

Other impacts

f) Cash flow statement

There are no material differences between the cash flow statements presented under IFRS and the cash flow statements presented under Canadian GAAP for the quarter ended September 30th, 2010 and the year ended December 31st, 2010.

g) Loss per share

Primarily, as a result of the change in accounting for flow-through shares as described above, the Company's loss per common share has increased by \$0.01 for the nine months ended September 30th, 2010 and year ended December 31st, 2010, respectively.



Management's Discussion and Analysis

September 30, 2011

San Gold Corporation
Corporate Office
Suite 212-1661 Portage Ave.
Winnipeg, Manitoba R3J 3T7
Canada

Date of report: November 14, 2011

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Introduction

This management's discussion and analysis ("MD&A") of the financial position and operating results of San Gold Corporation and its subsidiaries ("San Gold" or the "Company") is for the three-month period ended September 30, 2011 compared with the three-month period ended September 30, 2010 and should be read in conjunction with the Company's audited annual financial statements for the period ended December 31, 2010 and notes thereto. Together with the interim consolidated financial statements and related notes, the MD&A provides a detailed account, discussion, and analysis of the Company's financial and operating performance for the quarter. Unless otherwise indicated, this discussion is based in Canadian dollars and presented in accordance with International Financial Reporting Standards (IFRS).

Comparative periods for fiscal 2010 have been restated in accordance with IFRS, including the January 1, 2010 transition date balance sheet; however, periods prior to fiscal 2010 have not been restated and are reported in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Financial statements subsequent to this report will be prepared in accordance with IFRS. Note 28 of the interim consolidated financial statements for the three months ended September 30, 2011 contains a detailed reconciliation of the Company's financial statements previously prepared under Canadian GAAP to those under IFRS for the three months ended September 30, 2010 and for the year ended December 31, 2010 as well as the balance sheets as of these dates and the opening transition date of January 1, 2010. In addition, a detailed description of the effects of the adoption of IFRS on the Company's financial reporting is included later in this MD&A under Changes in Accounting Policies.

NOTE TO UNITED STATES AND OTHER INVESTORS

All references to mineral reserves and resources contained in this MD&A are determined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") of the Canadian Securities Administrators ("CSA") and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under the Securities and Exchange Commission ("SEC") standards in the United States ("U.S."). As such, information contained in this MD&A concerning descriptions of mineralization and mineral resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category of mineral resource. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable mineral reserves.

FORWARD LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of Canadian securities legislation. These forward-looking statements are made as of the date of this MD&A and San Gold does not intend, and does not assume any obligation, to update these forward-looking statements.

Forward-looking statements may include, but are not limited to, statements with respect to estimates of mineral resources, the future price of gold, realization of mineral resources estimates, timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of developing new deposits, success and extent of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate",

or “believes” or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, integration of acquisitions, as well as those factors discussed below in the sections entitled “Other MD&A Requirements and Additional Disclosure and Risk Factors”. Although the Company has attempted to identify important factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. See “Other MD&A Requirements and Additional Disclosure and Risk Factors”.

CAUTIONARY NON-IFRS STATEMENTS

The Company believes that investors use certain indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with IFRS.

“Total cash operating costs” as used in this analysis is a non-IFRS term typically used by gold mining companies to assess the level of gross margin available to the Company per ounce of gold by subtracting these costs from the gold price realized during the period. This non-IFRS term may also be used to assess the ability of a mining company to generate cash flow from operations. There may be some variation in the method of computation of “total cash operating costs” as determined by the Company compared with other mining companies. In this context, “total cash operating costs” reflects the per ounce cash costs allocated from in-process and dore inventory associated with ounces of gold sold in the period and net royalties. “Total cash operating costs” may vary from one period to another due to operating efficiencies, quantity of ore processed, grade of ore processed, and gold recovery rates.

“Unit mining cost per ton of ore” is a non-IFRS measure and may not be comparable to data prepared by other gold mining companies. The Company believes that this generally accepted industry measure is an indication of operating performance and is useful for period over period comparisons. Unit mining cost per ton of ore is calculated by adjusting operating costs, as shown in the Statement of Net Income (loss) and Comprehensive Income (loss), for depletion, amortization and inventory adjustments (if required) and then dividing by the tons of ore processed through the mill.

Core Business

San Gold is a publicly traded company listed on the Toronto and OTCQX stock exchanges under the trading symbols “SGR” and “SGRCF”, respectively. The Company is engaged in the business of exploration, development, and production of gold.

The Company owns and operates the Rice Lake Project, near the community of Bissett, located approximately 235 road-kilometres northeast of Winnipeg, Manitoba. In addition to the Rice Lake Project, the Company has joint venture interests with other companies for the exploration of minerals in the provinces of Manitoba and Ontario.

The Rice Lake Project area encompasses 997 hectares around the Rice Lake Mine, and 40 contiguous mining claims covering an area of 4,658 hectares. The Company also has 41 non-contiguous mining claims covering an area of 4,032 hectares located in the surrounding area to the west, south, and east of the Rice Lake Project. Management considers all of these mineral claims to be very prospective for the delineation of extensions to areas of



known mineralization, discovery of new mineralized zones in close proximity to existing mining operations, and discovery of new mineralized zones throughout the region.

The Rice Lake Project has a permitted, modern gold mill currently processing ore at a rate in excess of 1,600 tons per day, as well as modern surface infrastructure, including a licensed tailings management facility and is connected to the Manitoba power grid system. Gold extracted at site is produced in dore form and is shipped to a refinery in Ontario before being sold.

The Company is currently processing ore from its Rice Lake, Hinge, and 007 underground mines, which commenced commercial production in 2005, 2009, and 2010, respectively. The Company also has a fourth mine, the San Gold #1 (SG-1) Mine, which is contained within the Rice Lake Project area and has been on care-and-maintenance since late 2008. The majority of the Company's mineral resources and reserves occur within the Rice Lake Project area.

As at June 30, 2010, the Rice Lake Project has measured and indicated mineral resources of 2.4 million tons grading 0.36 ounces of gold per ton containing approximately 812,000 ounces, and inferred mineral resources of 6.2 million tons grading 0.29 ounces of gold per ton containing approximately 1,815,000 ounces. The measured and indicated mineral resources reported include proven and probable mineral reserves of 2.6 million tons grading 0.29 ounces of gold per ton of ore containing approximately 767,000 ounces.

The Company also has mineral resources at its 50% owned Timmins North Project, located within Tully Township near Timmins, Ontario. As of August 1, 2010, the project had indicated mineral resources of 362,100 tonnes grading 8.0 grams of gold per tonne ("g/t Au") containing approximately 93,100 ounces of gold, and inferred mineral resources of 592,100 tonnes grading 7.3 g/t Au containing approximately 139,900 ounces of gold. A preliminary economic assessment has been completed on this project. San Gold's partner, SGX Resources Inc. ("SGX Resources") (TSX Venture: SXR) is the operator.

Third Quarter 2011 Highlights

In the third quarter of 2011, the Company:

- Generated record quarterly operating income from operations of \$12.1 million, compared to income from operations of \$4.1 million in the third quarter of 2010 – this led to unadjusted positive net income of \$1.0 million in the quarter.
- Produced 19,119 ounces, a 52% increase compared to 12,568 ounces in the third quarter of 2010.
- Recognized record quarterly revenue of \$32.9 million on gold sales of 18,867 ounces at a realized price of \$1,743 per ounce, a 137% increase from revenue of \$13.9 million in the third quarter of 2010.
- Total cash costs were \$769 per ounce of gold sold, below annual guidance of \$825 per ounce.
- Realized a cash operating margin of \$974 per ounce of gold sold with a realized price of \$1,743 per ounce through the quarter.
- Achieved average mill throughput of 1,324 tons per day.
- Cash and cash equivalents balance of \$31.3 million as at September 30, 2011.

Results of Operations

Gold production of 19,119 ounces in the third quarter of 2011 was 52% higher than production of 12,568 ounces in the third quarter of 2010. Gold production of 53,918 ounces in the first nine months of 2011 was 58% higher than production of 34,217 ounces in the same period of 2010. The table below summarizes key production metrics for the trailing eight quarters, which may have been adjusted to reflect final settlements:

Table 1: Trailing 8-Quarter Operating Metrics

	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Ore milled (tons)	121,844	114,624	82,792	83,174	75,263	58,098	59,325	50,486
Head grade (g/tonne Au)	5.83	6.35	6.47	4.29	6.12	5.90	7.65	8.21
Contained gold (ounces)	20,732	21,244	15,636	10,414	13,436	9,996	13,236	12,097
Ounces of gold produced	19,119	20,111	14,688	9,280	12,568	9,188	12,462	11,462
Ore mined (tons)	124,952	123,261	102,200	84,743	71,463	63,323	63,024	50,486
Ore milled per day (tons)	1,324	1,260	920	904	818	638	659	549
Ore mined per day (tons)	1,358	1,355	1,136	921	777	696	700	549
Mill recovery (%)	92%	95%	94%	89%	94%	93%	94%	95%

Higher gold production in 2011 is a result of increased mill throughput relative to the comparable periods of 2010. Higher gold production in the third quarter of 2011 relative to the same period of 2010 was a result of a 62% increase in tons of material processed by the mill. The benefits of increased throughput in the third quarter of 2011 were partially offset by a 5% decrease in head grade and a slight decrease in gold recovery to 92% from the 94% achieved in the third quarter of 2010.

During the third quarter of 2011, the Rice Lake Mill processed a record of 121,844 tons of ore at an average grade of 5.83 grams of gold per tonne of ore. The Company achieved a record quarterly throughput rate of 1,324 tons per day in the third quarter of 2011, a 62% increase compared to throughput of 818 tons per day in the third quarter of 2010. The increase in throughput relative to prior periods is a product of increased crushing and milling initiatives implemented over the past year.

The slight decrease in mill head grade and gold recovery in the third quarter of 2011 relative to the prior quarter and the comparative period of 2010 is the result of a decision to process lower grade stockpiled ore to mitigate gold loss to tailings during a flotation cell upgrade during the month of July. In July 2011, the Company initiated the first phase of a two-phase project to replace the mill's flotation cells with new, higher capacity units. To avoid a 6-week shutdown to complete the project, the Company continued to process without the flotation cells, which had the predicted effect of temporarily reducing gold recovery. During Phase I of this project, the Company processed stockpiled, lower grade ore as gold recovery in the Rice Lake Mill is positively correlated with head grade. Phase I of the flotation cell replacement project was commissioned during the month of August, which restored recovery rates to more historical rates. The final phase of the flotation cell replacement project commenced in September and the new units were fully commissioned in the subsequent period.

During the third quarter of 2011, the Company mined ore at a record quarterly rate of approximately 1,358 tons per day for a total of 124,952 tons, an increase of 75% compared to the rate of 777 tons per day in the same period of 2010. The increase in mining rates is attributable to an increased number of active mining areas, a larger

mechanized mining fleet, and improved safety performance. During the quarter, approximately 78% of the tons mined were sourced from the generally lower cost and higher grade Hinge and 007 mines.

The following table compares cost per ton for the three-month periods ended September 30, June 30 and March 30, 2011:

Table 2: Cost per Ton of Ore Summary

	Q3 2011	Q2 2011	Q1 2011	YTD 2011
Mining	\$101.66	\$120.73	\$121.79	\$113.55
Processing	\$17.47	\$17.64	\$24.63	\$19.39
Total cost per ton of ore	\$119	\$138	\$146	\$133

The total cost per ton of ore in the third quarter of 2011 decreased 14% to approximately \$119 compared to \$138 in the second quarter of 2011.

Mining cost per ton of material was approximately \$102 in the third quarter of 2011 compared to \$121 in the second quarter of the year. The reduction in mining cost per ton in the third quarter of 2011 compared to the previous quarter is the result of increasing throughput levels representing a better use of productive capacity.

Processing costs per ton of ore of approximately \$17 in the third quarter of 2011 were relatively consistent with the second quarter of 2011.

The following table provides a reconciliation of the non-IFRS metric of total cash costs.

Table 3: Cash Operating Cost Reconciliation

	Q3 2011	Q2 2011	Q1 2011	YTD 2011
Total cash cost (000)	\$14,515	\$15,805	\$12,122	\$42,442
Tons of ore milled	121,844	114,624	82,792	319,260
Total cost per ton of ore	\$119	\$138	\$146	\$133
Ounces sold	18,867	19,276	14,059	52,202
Total cash operating cost per ounce sold	\$769	\$820	\$862	\$813

Total cash operating costs of \$769 per ounce of gold sold in the third quarter of 2011 was 6% lower than the \$820 per ounce of gold sold reported for the second quarter of 2011. Total cash costs have decreased but are comparable to the previous quarter which combined with an increased activity level has led to a reduction in the cost per ton and per ounce, respectively. The Company matches expenses related to the sale of gold in the period. Accordingly, total cash operating costs reflect not only the cash spent in a period, but also an adjustment to reflect the increase or decrease of in-process inventory. Costs of production are accumulated at each step including mining, milling and various overheads to calculate a cost per ounce that is used to value unsold inventory. Stockpiled ore has only mining costs associated with it, as it has yet to be processed.

In the third quarter of 2011, the Company increased the value of in-process inventory as the rate of mining exceeded the capacity of the mill, resulting in a slight increase in the surface ore stockpile to 26,000 tons. Since the start of

2011, the in-process inventory increased from \$6.1 million at December 31, 2010 to \$10.2 million at the end of the third quarter of 2011.

Investments in Mineral Property, Plant and Equipment

A summary of the cash invested in operating capital and development activities for the period ended September 30, 2011 is presented below.

OPERATING CAPITAL

Capital spending in the third quarter of 2011 was focused on increasing mill capacity, improving key infrastructure, and sustaining capital. The Company capitalized \$6.4 million of property, plant, and equipment during the quarter compared to \$6.5 million in the same quarter of the prior year. In the first nine months of 2011, the Company has capitalized \$21.1 million of property, plant, and equipment compared to \$10.0 million in the same period of last year.

Projects completed during the third quarter of 2011 include:

- Purchase of mobile mining equipment.
- Warehouse expansion.
- New 44 person camp.
- Commissioned the first 5 of new high-capacity flotation cells in the mill.

Significant projects planned or in progress include:

- Installation and commissioning of the remaining 5 new high capacity flotation cells in the mill.
- Installation and commissioning of a new screening plant and overland conveyor in the crushing circuit.
- Tailings management facility expansion.
- Construction of a new refinery, gravity concentrator, and mill maintenance facility.
- Surface electrical upgrades to improve power factor and increase electrical distribution.
- Construction of a new Alimak escape way raise.
- Centralized offsite data backup and redundant computer network.
- New 30 person camp.

For the remainder of 2011, the Company plans to increase the capacity of the mill to at least 1,800 tons per day. The increase in throughput capacity from the current rate is to be achieved through additional operating efficiencies resulting from the addition of the new high-capacity flotation cells, a new overland conveyor, and a new screening plant.

DEVELOPMENT CAPITAL

Development activities continue to focus on developing access to new areas for ore production and exploration purposes. In the third quarter of 2011, the Company invested \$12.4 million in mine development activities net of depletion of \$5.0 million. Year to date the Company has capitalized \$39.8 million of mineral property development net of depletion of \$12.5 million.

The Rice Lake Mine continues to develop and produce from the 98, 98 FW and RL East veins at the eastern ends of the 26 and 28 levels. Modernization of the 26 Level continued in order to develop fully mechanized access for mining and hauling ore, as well as to provide drill platforms for the exploration of the potential down-dip extensions of the Hinge, L10, and 007 zones.

Development at the Hinge and 007 mines continued with the main decline, diamond drill platforms and initial development towards the recently discovered L10 and 007 East zones. Mining commenced in the L4 zone and continued in the 007 zone.

Exploration Summary

In the first nine months of 2011, the Company invested \$4.1 million in exploration, engineering and permitting work to support future mine development. Total exploration expenditures in the third quarter of 2011 were \$7.4 million, of which \$6.1 million was expensed, while \$1.3 million was capitalized relating to work performed at Cohiba and L10 deposits. The Company's exploration activities are pre-funded by a \$29.8 million flow-through financing that was completed in the first quarter of 2011.

San Gold is currently undertaking its largest ever exploration program, which includes drilling at least 300,000 metres this year, making it one of Canada's largest drill programs by a gold producer in 2011. The goals of the 2011 drill program are to provide definition drilling ahead of mining crews for near and mid-term production planning purposes; upgrade a significant portion of the Company's inferred mineral resources to the measured and indicated categories; identify new inferred mineral resources; and to confirm that the recently discovered near surface zones extend to depths exceeding 1,000 metres. The Company is planning to present an updated mineral resource and reserve statement in 2012.

The Company had up to 14 drill rigs operating in the third quarter of 2011, with exploration activities focused on the San Antonio Mining Unit, the Shoreline Basalt Unit, an intermediate volcanic rock unit north of the Shoreline Basalt Unit, and the Normandy Creek Shear Zone, in addition to other exploration activities. As of the end of the third quarter, the Company had drilled more than 274,000 metres in 925 holes in 2011. A summary of the metres drilled by project in the third quarter of 2011 is presented in the following table:

Table 4: Drilling Summary Third Quarter 2011

Location	Zone	Definition (m)	Exploration (m)	Total (m)
Underground	Zone			
	RLM	8,325	4,953	13,278
	Hinge / L10	3,010	4,296	7,306
	007	8,860	1,233	10,093
	Cohiba	-	-	-
	L13	-	4,615	4,615
		20,195	15,097	35,292
Surface	L13	-	-	-
	Emperor	-	9,859	9,859
	007	-	12,760	12,760
	SG1	-	7,227	7,227
	Hinge / L10	-	7,638	7,638
	Other	-	12,131	12,131
		-	49,615	49,615
Total Drilling		20,195	64,712	84,907

San Antonio Mining Unit

The San Antonio Mining Unit (or the Historic Mining Unit) is a gold bearing, steeply dipping, mafic volcanic rock unit. Gold mineralization in the San Antonio Mining Unit is associated with gold-bearing quartz veins and stockwork related to shear zones and tensional fractures near the hanging wall contact. The San Antonio Mining Unit was originally discovered in 1911 and intermittent mining operations since 1927 have produced more than 1.5 million ounces. Mineralization in the San Antonio Mining Unit has been traced to a depth exceeding 1,500 metres.

In 2011, exploration activities in the San Antonio Mining Unit have focused on underground exploration and definition drilling of the ore envelope ahead of mining crews for near and mid-term production planning purposes in proximity to the 26 and 28 Levels. In the third quarter of 2011, the Company drilled 13,278 metres of mostly definition drilling in the San Antonio Mining Unit. Drilling continues within the San Antonio Unit at the Rice Lake Mine between the 26 and 28 Levels.

Shoreline Basalt Unit

The Shoreline Basalt Unit is a steeply dipping, mafic volcanic rock unit that is geologically similar to the San Antonio Mining Unit. In late 2010, the Company determined that a system of stacked lenses containing several significant, near-surface, high-grade gold-bearing zones, including the Company's 007 and L10 deposits, was associated with the Shoreline Basalt Unit. Gold mineralization is typically associated with tabular quartz veining along, or in close proximity to, the north hanging wall contact of the Shoreline Basalt Unit, that strike east-west, and dip steeply to the north.

Drilling from both surface and underground locations over the past two years has demonstrated that the Shoreline Basalt Unit has a strike length of more than two kilometres, a plunge that has been traced to more than 1,400 metres from surface, and that it remains open along strike and to depth. Recent geophysical surveys and other geologic

evidence suggest that the Shoreline Basalt may extend for at least another three kilometres east of the 007 Deposit towards the Company's SG-1 Mine near the Normandy Creek Shear Zone.

Exploration activities in the third quarter of 2011 along the Shoreline Basalt consisted of both surface exploration drilling and underground definition and exploration drilling. Drilling repeatedly intersected high-grade gold mineralization over mineable widths along the Shoreline Basalt Unit in close proximity to the 007 Deposit, which describes the 007 Main, 007 East, 007 Far East, and Emperor zones, and is expected to be demonstrated as continuous through the drill program. The cumulative drill-indicated strike length of the 007 and L10 zones along the Shoreline Basalt Unit is in excess of 600 metres and these zones have been located with drilling at depths exceeding 500 metres from surface.

One of the exploration objectives in the third quarter was to locate the down-dip extensions of the near-surface Shoreline Basalt zones and to determine the degree of continuity between them. During the quarter, the Company received initial assay results from deep drilling below the L10 Zone that located the zone at depths of up to 575 metres below surface, suggesting a potential 200-metre down dip extension to the zone. Notable assay results included 5.4 metres grading 22.86 g/t Au and 3.0 metres grading 5.08 g/t Au in drill hole DX-11-009. The L10 zone remains open along strike and down-dip, and additional assays are pending.

Management is very encouraged by the results of the Shoreline Basalt drilling program as it continues to demonstrate the potential for the expansion of existing mineralized zones and the discovery of new zones along the Shoreline Basalt both east and west and at depth. The Company expects to continue its aggressive drilling program along the Shoreline Basalt for the next several years.

Intermediate Volcanic Rock Unit

The Company's L13, Hinge, and Cohiba zones are near-surface, epithermal gold deposits contained within an intermediate volcanic rock unit located to the north of the Shoreline Basalt Unit. To-date, the epithermal deposits delineated along this trend typically occur as tabular quartz veining within a northeasterly striking shear zone and have individual drill-indicated strike lengths between 100 and 150 metres, vary in width from 1 to 10 metres, and have been located at a depth of up to 400 m below surface.

During the third quarter of 2011, drilling activities within this intermediate volcanic rock unit have focused primarily on underground definition drilling of the L13 and Hinge zones, and exploration drilling in close proximity to the Hinge Zone. The Company has also initiated a drilling program to the northeast of the Cohiba zone to test a prospective zone for new epithermal gold deposits.

Management continues to be encouraged by exploration results from within this intermediate volcanic rock unit and considers this southwest – northeast corridor to be very prospective for the discovery of new epithermal gold deposits. Drilling along this corridor has continued into the fourth quarter.

Normandy Creek Shear Zone

The Normandy Creek Shear Zone is a long splay fault of the Wanipigow Fault, a large east-west regional fault that forms the northern border of the Rice Lake greenstone belt that is associated with the Wanipigow Plutonic Complex to the east of the Rice Lake Mining Complex. This zone of intense ductile deformation is in close proximity to the northwestern edge of the Ross River Pluton. Gold mineralization along the Normandy Creek Shear is typically strata-bound and tabular.

The Company's 100%-owned SG-1 Mine is located approximately 4.5 kilometres northeast of the Company's Rice Lake Mill and has a dedicated decline. Near surface production at the SG-1 Mine commenced in 2006, but the mine was placed on care-and-maintenance in October 2008 when the Company reallocated mining and exploration resources to develop the higher grade and lower cost Hinge Mine. Historically, gold mineralization in the SG-1 Deposit and the SG-2 and SG-3 zones has been interpreted to be associated with the Normandy Creek Shear.

Prior to the initiation of the recent exploration drilling, the drill-indicated mineralized envelope of the SG-1 Deposit extended from surface to a depth of approximately 200 metres. In the third quarter, partial assay results from 5,357 metres of surface drilling completed located high-grade gold mineralization outside of the mineral resource envelope between depths of 290 metres and 475 metres below surface over economic grades and widths beneath the existing SG-1 Mine infrastructure. Notable intervals include 5.5 m grading 6.56 g/t Au in SG-11-013, 9.1 m grading 6.48 g/t Au in SG-11-016, and 18.3 m grading 6.48 g/t Au in SG-11-017. Additional assays are pending and drilling is ongoing to drill-test outside of the mineral resource envelope for extensions of the zone along strike and at depth.

These recent drill results, combined with other geological evidence and geophysical interpretation, suggests that the Company may have found a new horizon for gold mineralization along the Normandy Creek Shear Zone that may be associated with an eastern limb of the Shoreline Basalt Unit. Management is very encouraged by the recent success of the SG-1 Mine area drilling program outside of the existing mineral resource estimate and within close proximity to exciting mine infrastructure. These drilling results have the potential to significantly increase SG-1 mineral resources and reserves.

Other Exploration Activities

In addition to delineating and exploring for gold deposits hosted in the mafic and intermediate volcanic units, and the Normandy Creek Shear, the Company continues to pursue other prospective exploration targets within its mineral claims packages, option agreements, and joint venture agreements in Manitoba and Ontario.

In the third quarter of 2011, the Company entered into an option agreement with Wildcat Exploration Ltd. ("Wildcat") to earn an 80% interest in 122 claims in the Rice Lake area. Under the terms of the option agreement, the Company committed to spend a minimum of \$5.1 million over a four-year period on exploration activities. Additionally, the Company subscribed for \$0.25 million in common shares of Wildcat and has agreed to subscribe for an additional \$0.75 million in common shares of Wildcat over a 3-year period.

During the third quarter of 2011, third party contractors completed a 3,600 line-kilometre high-resolution airborne magnetic geophysical survey on the Company's 100%-owned projects and on a portion of the projects that it has under option agreement within the Rice Lake greenstone belt. The Company is awaiting the preliminary interpretation and expects geophysical anomalies identified from the survey to help guide the Company's first-ever regional exploration program in the Rice Lake area.

Also during the third quarter of 2011, SGX Resources, the operator of the Timmins North Project joint venture, announced positive infill drilling results confirming the grade and width of mineralization at the Timmins North Deposit in the upper 200 metres of the deposit. Additionally, SGX Resources announced that exploration drilling had located a 200-metre down dip extension to the eastern extremities of the Timmins North Deposit. The Timmins North Deposit remains open in all directions and drilling continued into the fourth quarter.

For a summary of the Company's other claims, option agreements, and joint venture agreements as at September 30, 2011, please refer to Note 8 of the interim consolidated financial statements.

Financial Results

The Company's consolidated financial statements have been prepared using IFRS applicable to a going concern, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. The unaudited consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenue and expenses, and balance sheet classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

The following table summarizes quarterly results for the trailing eight quarters. Quarterly gold production has been adjusted to reflect final settlements, where applicable:

Table 5: Trailing 8-Quarter Financial Metrics

	IFRS							GAAP
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue (000)	\$32,891	\$28,432	\$19,817	\$17,475	\$13,881	\$12,607	\$13,988	\$11,720
Gold production (ounces)	19,119	20,111	14,688	9,280	12,568	9,188	12,462	11,462
Gold sales (ounces)	18,867	19,276	14,059	12,675	10,355	10,190	11,984	9,999
Income (loss) from operations (000)	\$12,150	\$7,585	\$3,198	\$4,032	\$4,120	(\$1,962)	(\$2,291)	(\$7,832)
Total and comprehensive income (loss) (000)	\$1,011	(\$3,973)	(\$5,336)	(\$9,359)	(\$4,635)	(\$7,918)	(\$2,722)	(\$5,224)
Earnings (Loss) (per basic share)								
- basic	\$0.00	(\$0.01)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.01)	(\$0.02)
- diluted	\$0.00	(\$0.01)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.01)	(\$0.02)

Gold production and gold sales have generally trended higher over the past eight quarters as the Company is optimizing mining operations and increasing production by advancing new mines to commercial production. Higher realized gold prices and increased gold sales, combined with decreasing operating costs have resulted in significantly improved financial performance over the past two years.

Income from operations in the third quarter of 2011 was \$12.1 million, a substantial improvement relative to income from operations of \$4.1 million in the same period of last year. The income from operations in the third quarter of 2011 also represents a 60% increase compared to the second quarter of this year. The improvement in operating margin per ounce to \$974 is attributable to lower cash operating costs and higher realized gold prices due to record gold prices. A summary of the Company's financial results for the three-month periods ended September 30, 2011 and 2010 and on a year to date bases for 2011 and 2010 is presented in the following table:

Table 6: Comparative Financial Results

	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Total and comprehensive income (loss) (000)	\$1,011	(\$4,626)	(\$8,298)	(\$15,267)
Items not affecting cash (000)	\$8,775	\$4,213	\$21,559	\$8,369
Cash provided (used) by operating activities before changes in non-cash working capital (000)	\$9,786	(\$413)	\$13,261	(\$6,897)
Net change in non-cash working capital (000)	\$568	(\$6,244)	(\$9,009)	(\$1,413)
Cash provided by operating activities (000)	\$10,354	(\$6,656)	\$4,252	(\$8,310)
Total and comprehensive income (loss) (000)	\$1,011	(\$4,626)	(\$8,298)	(\$15,267)
Earnings (loss) per share				
- basic	\$0.00	(\$0.02)	(\$0.03)	(\$0.06)
- diluted	\$0.00	(\$0.02)	(\$0.03)	(\$0.06)
Weighted average number of common shares outstanding				
- basic	311,339,001	291,886,424	307,869,004	279,353,462
- diluted	314,806,937	291,886,424	307,869,004	279,353,462

The Company reported improved financial results in the third quarter of 2011 compared to the same period in the prior year. Cash flow from operations before changes in non-cash working capital increased to \$9.8 million (\$0.03 per share), compared to a use of \$0.4 million (\$0.00 per share) in the third quarter of 2010. After changes in non-cash working capital, cash flow from operations was \$10.4 million (\$0.03 per share) in the third quarter of 2011, a substantial improvement compared to the third quarter of 2010. Non-cash working capital was a source of cash in the third quarter of 2011, which is attributable to increased inventory and receivable levels associated with timing of sales and increased production compared to the third quarter of 2010.

For the first time in the Company's history, the Company is reporting positive quarterly total and comprehensive income. Total and comprehensive income of \$1.0 million (\$0.00 per share) in the third quarter of 2011 is a substantial increase relative to a loss of \$4.6 million in the third quarter of 2010. The increase is attributable to increased gold sales and higher operating margins resulting from higher realized gold prices combined with lower operating costs. For the nine months ended September 30, 2011, total and comprehensive loss of \$8.3 million is 45% lower than in the comparable period of 2010.

FINANCING ACTIVITIES

The Company received \$2.7 million during the third quarter of 2011 as a result of the exercise of share-based options. Additionally, the Company repaid \$0.5 million of long-term debt associated with capital equipment leases.

GOLD SALES

Table 7: Gold Sales

	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Gold sales (ounces)	18,867	10,355	52,202	32,529
Gold sales revenue (000)	\$32,891	\$13,881	\$81,140	\$40,476
Realized gold price per ounce	\$1,743	\$1,341	\$1,554	\$1,244



Gold sales revenue in the third quarter of 2011 of \$32.9 million was 137% higher than revenues of \$13.9 million recognized in the third quarter of 2010. The increase in gold sales revenue in the third quarter of 2011 is a result of an 82% increase in the number of ounces sold and a 30% increase in the average realized gold price compared to the third quarter of 2010.

As of September 30, 2011, the Company has not entered into forward gold sales and does not have any outstanding derivative activity related to gold, and is therefore fully leveraged to future changes in the price of gold. At current gold prices, San Gold realizes a significant positive operating cash margin of approximately \$1,000 per ounce of gold sold.

Operating Expenses and Operating Margins

Mine operating costs allocated to ounces sold for the three-month periods ended September 30, June 30 and March 30, 2011 are summarized in the table below:

Table 8: Operating Costs Allocated to Ounces

	Q3 2011	Q2 2011	Q1 2011	YTD 2011
Gold production (ounces) ⁽¹⁾	19,119	20,111	14,688	53,918
Gold sales (ounces)	18,867	19,276	14,059	52,202
Total cash costs (000) ⁽²⁾	\$14,515	\$15,805	\$12,122	\$42,442
- Per ounce sold	\$769	\$820	\$862	\$813
Depletion (000)	\$4,957	\$3,883	\$3,644	\$12,484
Amortization (000)	\$1,269	\$1,160	\$853	\$3,283
Total production costs ⁽³⁾	\$20,741	\$20,847	\$16,620	\$58,208
- Per ounce sold	\$1,099	\$1,082	\$1,182	\$1,115
Realized gold price per ounce	\$1,743	\$1,475	\$1,410	\$1,554
Operating cash margin (loss) per ounce ⁽⁴⁾	\$974	\$655	\$547	\$741

(1) Third quarter 2011 reported gold production is subject to final refinery settlement.

(2) "Total cash costs" is a non-IFRS measure that includes all direct mining costs, refining and transportation costs, by-product credits, and net royalties.

(3) "Total production costs" is a non-IFRS measure that includes all "total cash costs", amortization, and depletion.

(4) "Operating cash margin per ounce" is a non-IFRS measure that is calculated as the difference between the Company's gold sales and "total cash costs".

Total cash costs in the third quarter of 2011 were \$769 per ounce of gold sold, 6% lower than the prior quarter. The decrease in cash cost per ounce is attributable to the lower mining costs in the third quarter relative to the prior quarter.

Depletion expense in the third quarter of 2011 was \$5.0 million, an increase of 28% over the prior quarter. Increased depletion expense in the third quarter of 2011 is a result of higher production compared to the third quarter of 2010 as well as an increase in the depletion per ounce charge. Depletion expense is calculated on a units-of-production basis consistent with policy.

Amortization expense increased to \$1.3 million in the third quarter of 2011, an increase of 9% over the prior quarter. The increase is commensurate with investments in new equipment and infrastructure to support the Company's growth.

Other Expenses

EXPLORATION

Total exploration spending in the third quarter of 2011 was \$7.4 million, of which \$6.1 million of exploration spending was expensed compared to \$4.7 million in the third quarter of 2010.

The Company's accounting policy is to expense exploration expenditures and near-term ore development costs as incurred while longer-term development expenses are capitalized. Property acquisition, capitalized exploration, and longer term development costs incurred with the expectation of future benefit and with an economic plan towards increased ore reserves are capitalized to mineral properties and depleted on a units-of-production basis.

Management assesses whether exploration expenditure are near-term or longer-term development based upon a variety of factors, including, but not limited to the probability of future benefit, the time horizon to expected development, and the existence of an economic plan for development.

Management's estimate of gold price, recoverable proven and probable reserves, operating, capital and reclamation costs are subject to risks and uncertainties affecting the recoverability of the Company's investment in mining properties.

GENERAL AND ADMINISTRATIVE

General and administrative ("G&A") expense of \$5.1 million in the third quarter of 2011 was 24% higher than the \$4.1 million incurred in the third quarter of 2010. G&A expense has increased as a result of increased head count, travel requirements, and share-based compensation expense and is comparable to the prior quarter.

SHARE-BASED COMPENSATION

In order to promote employee retention, share-based option grants are subject to vesting provisions under which one-third of all share options granted vest on the anniversary date of grant and one-third at each subsequent anniversary.

Share-based compensation expense in the third quarter of 2011 increased to \$2.7 million from \$1.8 million in the same quarter of 2010 as a result of option grants for new employees.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial assets and liabilities consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities and current and future income tax liabilities that are denominated in Canadian dollars. The Company's cash balances are held in Canadian dollars.

The Company's cash and cash equivalents are invested in the following types of securities: treasury bills, banker's acceptances, commercial paper, money market funds, guaranteed investment certificates, coupons and residuals, government bonds, term deposits, corporate bonds and precious metal certificates.

Capital Resources and Cash Flows

At the end of the third quarter of 2011, the Company's current assets decreased by \$16.8 million to \$60.4 million and current liabilities increased by \$7.1 million to \$23.1 million, resulting in a working capital surplus of \$37.3 million compared to a working capital surplus of \$61.2 million at December 31, 2010. The decrease in current assets is

primarily attributed to the sale of \$33.7 million of marketable securities, which was partially offset by a \$5.5 million increase in accounts receivable, a \$4.1 million increase in gold in process and a \$1.8 million increase in supply inventory.

The increase in current liabilities is primarily attributable to a \$2.7 million increase in trade payables and the generation of a liability under IFRS related to the issuance of flow-through shares. Under IFRS, the Company records a liability for the difference between the proceeds received and the market price of the Company's shares on the date of the transaction ("premium"). This premium will be recognized as income upon the related renouncement of expenditures. The Company intends to renounce expenditures totalling the gross amount of the flow-through shares issued to the purchasing shareholders. At this point, the Company will also record the deferred tax liability associated with the renouncement of the tax benefits. Any difference between the deferred tax liability and the original premium liability will be recorded in the statement of income.

At September 30, 2011, the Company had \$31.3 million in cash, cash equivalents, and short-term investments compared to \$55.8 million at December 31, 2010. The decrease of \$24.5 million reflects the sale of marketable securities, an increase in expensed exploration and development costs, and investments in plant, property, and equipment and mineral properties. Increased cash flows from operations and financings activities partially offset the reduction in cash and cash equivalents. The Company expects current capital resources, when combined with cash flow from operations, to be sufficient to fund the Company's current development projects, and mining operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Transactions with Related Parties

The Company undertakes transactions in the normal course of business with related parties. These transactions are recognized at the exchange amount.

Due to the remote nature of the Company's Rice Lake Project there are a limited number of vendors offering competitive supply goods and services in the region. The Company undertakes transactions in the normal course of business with Wynne Mining Ltd., Wynne's Place Ltd., Hotel San Antonio, and Wynne Drilling Ltd. ("Wynne Group of Companies"). The Wynne Group of Companies is a collection of private corporations controlled by a Director and the Executive Chairman of the Company that operate in close proximity to the communities surrounding the Rice Lake Project.

Table 9: Wynne Group of Companies

	Q3 2011	Q3 2010	YTD 2011	YTD 2010
(\$000's)				
Accounts receivable (payable), beginning of period	(\$954)	\$3	(\$484)	(\$30)
Expenses at exchange amount	(\$4,971)	(\$3,499)	(\$13,405)	(\$7,927)
GST on services	(\$228)	(\$160)	(\$608)	(\$346)
Payments issued	\$5,555	\$3,243	\$13,898	\$7,888
Accounts receivable (payable), end of period	(\$599)	(\$414)	(\$599)	(\$414)
Prepaid expenses	\$200	\$200	\$200	\$200

During the third quarter of 2011, the Company purchased goods and services for the sum of \$5.0 million, compared to \$3.5 million in the third quarter of 2010 from the Wynne Group of Companies. For the nine-month period ended

September 30, 2011, the Company purchased goods and services for the sum of \$13.4 million, compared to \$7.9 million from the Wynne Group of Companies in the comparable period of 2010. The increase in these expenses is primarily attributed to a substantial increase in the size of the drilling program compared to the same period in the previous year.

These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These services were expensed or capitalized in the period, forming part of direct exploration expenses, general and administrative expenses, or operational expenses on the Company's consolidated statements of operations and deficit. The amounts due to related parties at the end of the third quarter of 2011 of \$0.6 million are included in the accounts payable on the Company's consolidated statement of financial position. The \$0.2 million prepaid expense balance arises contractually as a retainer for ongoing services from Wynne Drilling Ltd.

The Company undertakes transactions in the normal course of business with other related parties. These transactions are recognized at the exchange amount. General and administrative expenses for the quarter ended September 30, 2011 include \$nil (September 30, 2010 - \$0.1 million) and for the nine-month period ended September 30, 2010 include \$0.05 million (September 30, 2010 - \$0.2 million) for fees paid to companies controlled by directors for various consulting and managerial work. Exploration expense includes \$0.4 million to a related party for work done according to an agreement between the parties (September 30, 2010 - \$nil).

Accounts receivable includes \$0.1 million (December 31st, 2010 - \$0.12 million) due from SGX Resources Inc. The amount is the value of common shares of the Company issued to SGX Resources Inc.

Directors' Compensation

The Company pays non-executive members of the Board of Directors a fee of \$3,000 per month in their capacity as directors plus additional fees for committee work. In the third quarter of 2011, total cash compensation paid to directors in their capacity as directors was \$45,000, comparable to the amount of \$54,000 paid in the third quarter of 2010.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statement requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, as well as revenues and expenses. Please see Note 3 in our annual audited financial statements for a complete description. The following items are determined to be the most critical by management.

MINERAL RESERVES

The process of estimating quantities of gold mineral reserves is complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. The data for a given ore body may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, production history and the continual reassessment of the viability of ore bodies under various economic conditions. A material revision to existing reserve estimates could occur because of, among other things: revisions to geological data or assumptions; a change in the assumed gold prices; and the results of drilling and exploration activities. If estimates of reserves prove to be inaccurate, or a mining plan changes due to reductions in the price of gold or otherwise, resulting in a reduction in the reserves expected to be recovered, the Company could be required to write-down the recorded value of its plant and equipment and mine development costs, or to increase the amount of future depreciation, depletion and amortization expense, both of which would adversely affect the Company's earnings and net assets.

RESOURCES, RESERVES, AND PRODUCTION

The figures for mineral resources and reserves presented in this and other documents are estimates and no assurance can be given that the anticipated level of recovery and/or grades of reserves or resources will be realized. Establishment of a gold mineral reserve and development of a gold mine does not assure a profit on the investment or recovery of costs. In addition, geological complexity, mining hazards or environmental conditions could increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations may contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels. Moreover, short-term operating factors relating to mineral reserves and resources, such as the need for orderly development of an ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period. The quantity of a given mineral tends to vary in all types of deposits. Due to the nature of drilling and building reserves, small variances both positive and negative must be anticipated. Mineral resources are estimated based on samples that may or may not reflect the actual deposit. The combined effect of these factors could have material effects (negative or positive) on the Company's business, financial condition and prospects.

RECOVERABLE VALUES

The recoverability of deferred expenditures is dependent upon: the discovery of economically recoverable mineral reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

Changes in Accounting Policies

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The following discussion of accounting standards and information is provided solely for the purpose of shareholders and other interested parties to obtain a better understanding of the Company's conversion to IFRS and the resulting effects on the Company's financial statements and operating performance measures. Readers are cautioned that it may not be appropriate to use such information for any other purpose.

Effective February 2008, the Canadian Accounting Standards Board announced that publicly accountable entities would be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for interim and annual financial statements for periods beginning on or after January 1, 2011. The transition date of January 1, 2011 required the restatement into IFRS for comparative purposes of amounts previously reported under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") by the Company for the year ended December 31, 2010, including a revised opening balance sheet as at January 1, 2010.

IFRS is based on a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement, and disclosure. While the adoption of IFRS did not have a material impact on reported cash flows, it did have a material impact on the consolidated statements of financial position and statements of net income (loss) and comprehensive income (loss). The impact of these differences on the January 1, 2010 opening statement of financial position, as well as the September 30, 2010 and December 31, 2010 statements of financial position have been disclosed in the condensed interim consolidated financial statements. In addition, the impact of these differences on the statements of net income (loss) and comprehensive income (loss) for the period ended September 30, 2010 and year ended December 31, 2010 have been disclosed in the condensed interim consolidated financial statements.

The interim consolidated financial statements for the three months ended September 30, 2011 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 28 to the consolidated financial statements, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. The Company anticipates adopting these same policies in its December 31, 2011 annual consolidated financial statements, which are based on the IFRS standards that the Company expects to be applicable at that time. However, any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement or adjustment of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. Such Canadian GAAP financial statements may not be comparable in all material respects. Accordingly, Note 28 discloses IFRS information for the year ended December 31, 2010 that is material to the understanding of these interim consolidated financial statements. Note 28 details the impact of the transition to IFRS on the Company's reported balance sheet, statements of income (loss), comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's Canadian GAAP consolidated financial statements for the year ended December 31, 2010. The following highlights the impacts of the more significant changes in accounting policies:

INITIAL ADOPTION – IFRS 1

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides guidance for an entity's initial adoption of IFRS and generally requires the retrospective application of all IFRS effective at the end of its first IFRS reporting period. IFRS 1 permits exemptions and mandatory exceptions from full retrospective application of certain standards. In preparing these consolidated financial statements in accordance with IFRS, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS as described below.

MANDATORY EXCEPTIONS

The Company has applied the following mandatory exceptions from retrospective application to IFRS:

Estimates: Hindsight was 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. Estimates under IFRS at January 1, 2010 are consistent with estimates made for that same date under Canadian GAAP.

Hedge accounting: Hedge accounting can only be applied prospectively from the IFRS transition date to transactions that satisfy hedge accounting criteria of IAS 39 *Financial Instruments: Recognition and Measurement*. The Company does not undertake hedging or speculation activities and therefore this exception did not have any impact to the Company.

OPTIONAL EXEMPTIONS

The Company has applied the following optional exemptions from full retrospective application on the opening transition date of January 1, 2010:

- i) **Business combinations:** IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the transition date. Full retrospective application of IFRS 3 would require restatement of all business combinations that occurred prior to the transition date.

The Company has applied the business combinations exemption in IFRS 1 and as a result has not retrospectively applied IFRS 3 to any business combinations that took place prior to the transition date of January 1, 2010. No changes to assets or liabilities recognized in those business combinations were required as a result of adopting IFRS.

- ii) Borrowing costs: This exemption allows an entity to adopt IAS 23, *Borrowing Costs*, prospectively to construction projects for which the capitalization commencement date is after January 1, 2010 or it may elect any date earlier than January 1, 2010 for transition.

The Company has elected to apply the borrowing cost exemption prior to January 1, 2010 and as a result will apply IAS 23 to qualifying properties for which the commencement date for capitalization is January 1, 2010 or later.

- iii) Share-based payments: This exemption allows first-time adopters to not apply IFRS 2, *Share-based payments*, to equity instruments that were granted prior to November 7, 2002. It also allows the first-time adopter to not apply IFRS 2 to equity instruments granted after November 7, 2002 that vested before transition to IFRS.

The Company has elected this exemption and as a result will only apply IFRS 2 for share-based payments that were granted after November 7, 2002, and had not vested at January 1, 2010.

- iv) Asset retirement obligations: Under IFRS, when an asset retirement obligation is established, an entity is required to set up a corresponding asset and charge depreciation over the remaining useful life of the asset. Subsequent changes to the liability are added or deducted from the cost of the asset to which the obligation relates. This exemption allows a first-time adopter to calculate the asset retirement obligation on transition in accordance with IFRS, discount the liability back to the date when it first arose and depreciated to its carrying amount on the transition date.

In the absence of this exemption, entities would need to determine what the change in the asset retirement obligation each reporting period would have been since the liability was incurred and make corresponding adjustments to depreciation at the transition date. The Company elected to apply this exemption on transition as a result of the changes in accounting for asset retirement obligations (refer to discussion below).

- v) Compound financial instruments: The accounting treatment for compound instruments is different under IFRS as compared to Canadian GAAP. This exemption applies when a compound financial instrument is split into separate liability and equity components and the liability is no longer outstanding. Under the exemption, if the liability component is no longer outstanding, a first-time adopter does not have to retrospectively separate the liability from the equity component.

The Company has elected to apply this exemption as convertible debentures issued in 2006 and 2008 were redeemed and/or converted with the related liability component no longer being outstanding at January 1, 2010.

Impact on accounting policies with the adoption of IFRS

IFRS ADJUSTMENTS

- a.) Asset retirement obligations

IFRS requires the asset reclamation obligations costs and obligations to be measured based on management's best estimate of future expenditures and adjustments to the liability are made in each period for changes in the timing or amount of cash flow, changes in the discount rate and the accretion expense. The estimated future

cash flows are discounted at the period end risk free rate and upward revisions in the liability are not tracked separately as is required under Canadian GAAP.

The adjustment on transition to IFRS measures the asset retirement obligation in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). As described above, the Company applied the IFRS 1 exemption to not retrospectively apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. This optional exemption allows for a short-cut method in order to record an adjustment for the opening depreciated cost of the decommissioning and restoration asset under IFRS on transition. Accordingly, the Company recorded an adjustment to increase the asset retirement obligation asset (included within mineral properties) by \$1.4 million and the asset retirement liability by \$1.4 million for a total adjustment that reduced the deficit by \$0.1 million on transition to IFRS.

Under IFRS, the asset retirement obligation is required to be recalculated using a new discount rate at each reporting period. The change in the discount rate is adjusted through the asset retirement asset and liability. As a result in the change in the discount rate, depletion of the asset retirement asset increased by \$0.1 million and \$0.1 million and the accretion expense decreased by approximately \$0.1 million and \$0.1 million for the nine months ended September 30, 2010 and year ended December 31, 2010, respectively.

b.) Flow-through shares

Under IFRS, the Company will record a liability for the difference between the proceeds received and the market price of the Company's shares on the date of the transaction ("premium"). This premium will be recognized as income upon the related renunciation of expenditures. At this point, the Company will also record the deferred tax liability associated with the renunciation of the tax benefits. Any difference between the deferred tax liability and the original premium liability will be recorded in the statement of income.

The adjustment on transition to IFRS to record the change in accounting for flow-through shares is computed as the difference between the tax attributes renounced to subscribers (and recorded against equity for Canadian GAAP) and the premium on the flow through share issuance (which is the only amount that should be recorded for IFRS). Under IFRS, the difference is recorded to future tax expense, which impacts accumulated retained earnings. Accordingly, the Company recorded an adjustment on transition to increase share capital and retained deficit by \$5.4 million to record the effects of this policy change on historical flow-through issuances.

The Company also issued flow through shares in the first quarter of 2010. Upon renouncing these expenditures, an income tax expense is recorded as the difference between the premium and value of tax attributes renounced to shareholders. As a result of the issuance and subsequent renunciation, share capital and retained deficit increased by \$2.4 million and \$7.8 million for the period ended September 30, 2010 and year ended December 31, 2010, respectively.

IFRS RECLASSIFICATIONS

c.) Expense classification by function

IFRS requires that expenses be classified by function or nature. The Company will report expenses by function and has accordingly reclassified certain expenses on the face of the statement of comprehensive income to comply with this presentation.

d.) Accretion expense

In accordance with IFRS, accretion expense is presented as a financing cost. Accretion expense was previously reported as an operating cost.

e.) Net royalty obligation

Upon transition to IFRS, the Company has changed the presentation of items previously shown as gross under Canadian GAAP. Under IFRS, even when more than two parties are involved in the arrangement, net presentation is required provided the criteria of offsetting is met, while under Canadian GAAP the Company's policy was such that netting presentation was only permitted where two parties were involved. No gain or loss has been recognized as a result of this presentation difference, as the recognition and measurement treatment of the different components of the transaction has not changed upon transition. The royalty agreements have not been modified.

OTHER IMPACTS

f.) Cash flow statement

There are no material differences between the cash flow statements presented under IFRS and the cash flow statements presented under Canadian GAAP for the quarter ended September 30, 2010 and the year ended December 31, 2010.

g.) Loss per share

Primarily, as a result of the change in accounting for flow-through shares as described above, the Company's loss per common share has increased by \$0.01 for the nine months ended September 30, 2010 and year ended December 31, 2010, respectively.

Future Changes to Accounting Standards

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1st, 2013 with earlier application permitted.

IFRS 10, "Consolidated Financial Statements" (IFRS 10), replaces IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities". IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11, "Joint Arrangements" (IFRS 11), supersedes IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities-Non-monetary Contributions by Venturers". IFRS 11 establishes principles for the financial

reporting by parties to a joint arrangement. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12, "Disclosure of Interests in Other Entities" (IFRS 12) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27, "Separate Financial Statements" and IAS 28, "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 13, "Fair Value Measurement" defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company is currently evaluating the impact of the new standards on its consolidated financial statements.

Other MD&A Requirements and Additional Disclosure and Risk Factors

EXPLORATION AND MINING RISKS

The business of mineral exploration and mining involves a high degree of risk. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Company has relied on and may continue to rely upon consultants and others for exploration and development expertise. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineral deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection.

FINANCING RISKS

The Company has limited financial resources, has a history of losses, and has no assurance that additional funding will be available to it for further exploration and development. Failure to obtain such additional financing, if required, could result in delay or indefinite postponement of further exploration and development. Any further additional equity financing undertaken by the Company will cause dilution to the shareholders of the Company.

UNINSURABLE RISKS

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

NO ASSURANCE OF TITLES OR BOUNDARIES

The Company's mineral properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

PERMITS AND LICENSES

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

METAL PRICES

Factors beyond the control of the Company may affect the marketability of any gold or other minerals discovered or produced. Metal prices have fluctuated widely, particularly in recent years. The level of interest rates, the rate of inflation, world supply of mineral commodities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political systems and developments. The price of mineral commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be uneconomic.

COMPETITION

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees. In particular, the mining industry has been suffering from a lack of sufficiently qualified and experienced miners. Accordingly, competition for such personnel is intense and the Company must compete against other mining companies to retain such personnel. The lack of sufficient personnel is a limiting factor in the timeliness of the development of the Company and its business.

ENVIRONMENTAL REGULATIONS

The operations of the Company may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which could result in environmental degradation. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental effect assessments. Environmental legislation is evolving in a manner that introduces stricter standards, enforcement and fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in statutes and regulations has a potential to reduce the profitability of operations. To the best of the Company's knowledge, the Company is in compliance with all material environmental laws and regulations.

CONFLICTS OF INTEREST

Certain directors and officers of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter in accordance with *The Corporations Act* (Manitoba).

SHORTAGES OF SUPPLIES AND PERSONNEL

The Company may be adversely affected by shortages of critical supplies or equipment or trained personnel required to operate the business of the Company. Any shortage of critical supplies or equipment or trained personnel will affect the timeliness of the development of the Company and its business.

MARKET PERCEPTION

Market perception of junior exploration, development and mining companies may shift such that these companies are viewed less favourably. This factor could impact the value of investors' holdings and the Company's ability to raise further funds by issue of additional securities or debt.

NO HISTORY OF EARNINGS

The Company has no history of earnings with respect to its mineral exploration and development activities and there is no assurance that its operations will ever be profitable or provide a return on investment in the future. The Company has not paid dividends in the past and has no plans to pay dividends in the future.

HEDGING

The Company does not have a hedging policy and has no intention of adopting such a policy. Accordingly, the Company has no protection from declines in metal prices.

SHARE PRICE FLUCTUATIONS

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price that would have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuous fluctuations in price will not occur.

EXCHANGE RATE FLUCTUATION

The financial results of the Company may be adversely affected by fluctuations in the rate of exchange of Canadian dollars into United States dollars. The Company does not currently take any steps to hedge against currency fluctuations.

Discussion on Internal Controls

Readers are cautioned that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential conditions. These disclosure controls and procedures have not required significant modification as a result of the Company's adoption of IFRS.

The Company is actively evaluating its disclosure controls and procedures ("DC&P") and its internal controls over financial reporting ("ICFR") The control framework the Company used to design the ICFR is the Internal Control –

Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Outstanding Share Data

As of the date of this report, November 14, 2011, the Company has 312,676,841 shares outstanding.

Outlook and Prospects

The Company is very pleased to report positive quarterly total and comprehensive income for the most recently completed quarter. The third quarter was also characterized by record revenues, cash flow from operations, and downward trending cash costs per ounce of gold.

In the first nine months of 2011, the Company has achieved record operating performance with record gold production of 53,918 ounces, a 58% increase compared to the same period of 2010. The increase in crushing and milling capacity, the implementation of more cost-effective mechanized mining methods, and the removal of constraints from operations contributed to the substantial increase in gold production and reduction in cash costs. With the expansion initiatives planned for 2011 substantially complete, mill throughput is forecast to increase significantly in the fourth quarter towards a year end exit rate of over 1,700 tons per day. In addition to the processing capacity improvements, the Company had a stockpile of 26,000 tons at the quarter end. In the subsequent period, the Company expects strong grades and increased tonnage from 007 and a reducing stockpile towards year end. As a result of these factors, the Company reiterates its full-year production guidance of 80,000 ounces.

Record gold production has been accompanied by a steady quarter-over-quarter reduction in total cash operating costs per ounce of gold sold from \$862 per ounce in the first quarter to \$769 per ounce in the third quarter. Higher mining, crushing, and milling rates combined with operational efficiencies and the removal of operational bottlenecks, has contributed to a significant reduction in the Company's cash costs per ounce. Year to date total cash costs of \$813 per ounce of gold sold, are below 2011's full year guidance. The Company expects that it will be able to continue to benefit from lower costs throughout the remainder of 2011 and continues to forecast a year-end exit total cash operating cost approaching \$650 per ounce. Accordingly, the Company is revising its 2011 full year total cash cost guidance downward from \$825 per ounce to under \$800 per ounce.

Capital spending in the fourth quarter will be allocated to the commissioning of the new, high-capacity flotation cells, and the installation and commissioning of a new overland conveyor and a screening plant. Once complete, these improvements are expected to further increase production and reduce total cash costs through increased capacity and improved gold recovery. As a result of the operating improvements successfully implemented in 2011, gold production in 2012 is forecast at 100,000 ounces with infrastructure in place by the end of 2012 for production to increase again in 2013 to a preliminary projected level of 120,000 ounces.

Exploration activities continue to build on this year's drill results. More detailed exploration disclosure will be forthcoming but early indications show that the 007 drilling programs have successfully identified significant vertical and lateral continuity and extension resulting in accelerated development in the district. The picture is changing from one of several discrete stacked lenses into a single continuous structure that is over 450 metres long and up to 12 metres wide at a depth of 350 metres below surface. The L10 zone has been confirmed by drilling from surface and underground to a depth of 800 metres and is fully accessible from the 16th level (730 metres below surface) at the Rice Lake Mine. A new drill program in proximity to the SG1 mine has produced some very encouraging initial results and may support dewatering of the mine which has been on care and maintenance for approximately three years. Exploration drill holes previously released with our third quarter production results have identified a new footwall zone at SG1 that is separate and distinct and has better widths and grade than the material originally mined at SG1 mining which was done to a maximum depth of 185 metres. The developments at SG1 support the thesis

that there may be other large intrusive hosted ore bodies proximal to the nearby Ross River Pluton. San Gold is looking forward to summarizing its 2011 exploration program results and providing frequent updates during the fourth quarter of 2011.

Exploration activities for the remainder of the year will continue to focus on definition and extension drilling for both production planning and exploration purposes at the San Antonio Mining Unit, the Shoreline Basalt Unit, the Normandy Creek Shear Zone, and within the intermediate volcanic rock unit north of the Shoreline Basalt Unit. The objectives of the Company's exploration programs is to develop a larger mine complex that can be exploited through existing infrastructure.

With rising production, and declining cash costs, combined with a strong gold-price environment and a strong balance sheet, the Company has positioned itself to finance its existing capital and explorations plans, as well as grow through new discoveries and potential acquisitions or joint venture opportunities.

Additional Information

Additional information relating to the Company is available on the SEDAR (www.sedar.com) and at the Company's website (www.sangold.ca).