

CADAN RESOURCES CORPORATION

(An exploration stage company)

Condensed Consolidated Interim Financial Statements
Nine month period ended September 30, 2011, and 2010
(Expressed in Canadian Dollars)

Unaudited - Prepared by Management

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CADAN RESOURCES CORPORATION
(An exploration stage company)
Condensed Consolidated Interim Balance Sheets
Unaudited
(Expressed in Canadian dollars)

	September 30, 2011	December 31, 2010 (note 13)
Assets		
Current		
Cash and cash equivalents	\$ 255,533	\$ 6,481,045
Amounts and advances receivable	75,861	51,437
Prepaid expenses	246,769	32,289
	578,163	6,564,771
Investment in and Expenditures on Resource Properties (notes 4 and 7)	28,801,234	23,956,844
Property, Plant and Equipment (note 5)	2,386,427	2,079,994
	\$ 31,765,824	\$ 32,601,609
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 265,172	\$ 656,648
Due to related parties (note 7)	-	196,932
	265,172	853,580
Shareholders' Equity		
Share Capital (note 6)	48,077,800	46,717,626
Share Subscriptions Received	48,500	-
Contributed Surplus	3,972,903	4,538,214
Deficit	(20,470,020)	(19,472,613)
Equity Attributable to owners of the Company	31,629,183	31,783,227
Non-Controlling Interest (note 13(a))	(128,531)	(35,198)
	31,500,652	31,748,029
	\$ 31,765,824	\$ 32,601,609

Subsequent event (note 12)
Approved on behalf of the Board:

"Robert G Butchart"
..... Director
Robert G Butchart

"Doug Evans"
..... Director
Doug Evans

CADAN RESOURCES CORPORATION
(An exploration stage company)
Condensed Consolidated Interim Statements of Comprehensive Loss
Unaudited
(Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Expenses				
Consulting fees (note 7)	\$ 404,625	\$ 224,800	\$ 820,800	\$ 470,800
Legal and professional	60,524	11,508	270,736	102,663
Foreign exchange loss/(gains)	35,339	40,865	154,362	59,004
Reorganization costs	58,550	-	146,414	-
Travel and accommodation	22,170	5,993	81,717	66,127
Regulatory and shareholder costs	23,058	19,464	85,657	102,107
Rent	5,461	22,150	38,126	61,864
Office and miscellaneous	23,323	37,773	69,981	88,312
Bank charges and interest	2,388	1,234	5,289	6,061
Depreciation and amortization	-	-	-	212
Stock-based compensation	152,960	-	342,405	122,480
Web site	-	1,500	100	12,652
Loss from operations	(788,398)	(365,287)	(2,015,587)	(1,092,282)
Financing costs				
Interest income	1,613	1,454	17,131	3,321
Net loss before taxes	(786,785)	(363,833)	(1,998,456)	(1,088,961)
Deferred tax recovery (expense)	107,467	55,498	-	-
Net Loss and Comprehensive Loss	\$ (679,318)	\$ (308,335)	\$ (1,998,456)	\$ (1,088,961)
Net Loss and Comprehensive loss attributed to:				
Owners of the Company	\$ (652,983)	\$ (281,696)	\$ (1,905,123)	\$ (1,038,878)
Non-Controlling Interest	(26,335)	(26,639)	(93,333)	(50,083)
	\$ (679,318)	\$ (308,335)	\$ (1,998,456)	\$ (1,088,961)
Loss Per Share – basic and diluted	(\$0.01)	(\$0.01)	(0.03)	(\$0.03)
Weighted Average Number of Common Shares Outstanding	57,562,559	40,514,359	57,562,559	39,305,071

CADAN RESOURCES CORPORATION
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Condensed Consolidated Interim Statements of Changes in Equity
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	Number of Shares Issued	Share Capital	Share Subscriptions Received	Contributed Surplus	Deficit	Equity Attributable to Owners of the Company	Non- Controlling Interest	Shareholders' Equity
Balance at January 1, 2010	34,750,053	32,543,276	467,500	3,705,190	(17,128,778)	19,587,188	50,083	19,637,271
Fair value of re-priced warrants	-	-	-	473,337	(473,337)	-	-	-
Stock-based compensation grant of options	-	-	-	122,480	-	122,480	-	122,480
Common shares issued for cash, warrants exercised (\$0.75 per share) (note 6(b) and (d))	50,000	37,500	-	-	-	37,500	-	37,500
Common shares issued for cash, warrants exercised (\$0.80 per share) (note 6(b) and (d))	20,000	16,000	-	-	-	16,000	-	16,000
Common shares issued for cash (\$0.85 per share) (note 6(b))	5,144,523	4,372,845	(467,500)	-	-	3,905,345	-	3,905,345
Common shares issued to finders	123,080	116,926	-	-	-	116,926	-	116,926
Share issue costs	-	(403,033)	-	190,507	-	(212,526)	-	(212,526)
Common shares issued for cash, options exercised (\$0.50 per share) (note 6(b) and (c))	100,000	50,000	-	-	-	50,000	-	50,000
Net loss for period	-	-	-	-	(1,038,878)	(1,038,878)	(50,083)	(1,088,961)
Balance at September 30, 2010	40,187,656	36,733,514	-	4,491,514	(18,640,993)	22,584,035	0	22,584,035
	Number of Shares Issued	Share Capital	Share Subscriptions Received	Contributed Surplus	Deficit	Equity Attributable to Owners of the Company	Non- Controlling Interest	Shareholders' Equity
Balance at January 1, 2011	57,179,608	46,717,626	-	4,538,214	(19,472,613)	31,783,227	(35,198)	31,748,029
Stock-based compensation grant of options	-	-	-	342,405	-	342,405	-	342,405
Reclassification of fair value of options and warrants upon expiry	-	-	-	(907,716)	907,716	-	-	-
Common shares issued for cash (\$0.30 per share) (note 6(b))	4,560,667	1,368,200	-	-	-	1,368,200	-	1,368,200
Common shares issued to finders	259,140	77,742	-	-	-	77,742	-	77,742
Share issue costs	-	(85,818)	-	-	-	(85,818)	-	(85,818)
Subscriptions received for private placement	-	-	48,500	-	-	48,500	-	48,500
Exercise of options	100	50	-	-	-	50	-	50
Net loss for period	-	-	-	-	(1,905,123)	(1,905,123)	(93,333)	(1,998,456)
Balance at September 30, 2011	61,999,515	48,077,800	48,500	3,972,903	(20,470,020)	31,629,183	(128,531)	31,500,652

CADAN RESOURCES CORPORATION
(An exploration stage company)
Condensed Consolidated Interim Statements of Cash Flows
Unaudited
(Expressed in Canadian dollars)

	Nine months ended September 30,	
	2011	2010
Operating Activities		
Net loss	\$ (1,998,456)	\$ (1,038,878)
Items not involving cash		
Stock-based compensation	342,405	122,480
Depreciation and amortization	-	212
Unrealized gain on foreign exchange	461	5,080
	(1,655,590)	(911,106)
Changes in non-cash working capital		
Amounts receivable and advances	(24,424)	(7,586)
Prepaid expenses	(214,480)	11,948
Accounts payable and accrued liabilities	(391,476)	26,932
Due to related parties	(196,932)	-
	(827,312)	31,294
Cash Used in Operating Activities	(2,482,902)	(929,895)
Investing Activities		
Deferred exploration costs (note 4)	(4,729,974)	(3,651,992)
Purchase of capital assets	(420,849)	(898,401)
Cash Used in Investing Activities	(5,150,823)	(4,550,393)
Financing Activities		
Proceeds from issuance of common shares	1,368,250	5,746,345
Share subscriptions received	48,500	470,155
Share issuance costs paid	(8,076)	(175,500)
Cash Provided by Financing Activities	1,408,674	6,041,000
Foreign Exchange Effect on Cash	(461)	(5,080)
Inflow (Outflow) of Cash	(6,255,512)	555,632
Cash and Cash Equivalents, Beginning of Period	6,481,045	906,796
Cash and Cash Equivalents, End of Period	\$ 255,533	\$ 1,462,428
Cash and cash equivalents comprised of:		
Cash	\$ 255,533	\$ 1,462,428
Cash equivalents	-	-
	\$ 255,533	\$ 1,462,428

Supplemental cash flow information (note 9)

CADAN RESOURCES CORPORATION
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Notes to Condensed Consolidated Interim Financial Statements
Unaudited
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Nine Months Ended September 30, 2011

1. GOING CONCERN AND NATURE OF OPERATIONS

Cadan Resources Corporation (the "Company" or "Cadán") is incorporated under the laws of British Columbia. The Company is an exploration stage company and its principal business activity is natural resource exploration, focusing on resources located in the Philippines.

During the first nine months of 2011, Cadán reorganized the ownership of its 40% holdings in its Philippine subsidiaries as follows: it transferred its 40% ownership in its Philippine affiliates, Philco Mining Corporation ("Philco") and Batoto Resources Corporation ("Batoto"), from its Australian subsidiaries to its wholly owned Canadian subsidiaries, Philco Holdings Inc. and Batoto Holdings Inc., respectively; it initiated the transfer of its 40% ownership in its Philippine affiliate TMC Tribal Mining Corporation ("TMC") from Cadán to its wholly owned Canadian subsidiary Tribal Holdings Inc; and, it will transfer its 40% ownership in its Philippine affiliate Sunbird Philippines Holdings Inc ("Sunbird") from Cadán to its wholly owned Canadian subsidiary Tribal Holdings Inc. In addition, Sunbird sold its interests in TMC and Cadán increased its holdings in Sunbird to 100% and initiated the process to change Sunbird's name to TMC Gold Processing Corporation ("TMC Gold"), with the intention of having TMC Gold acquire and operate the T'Boli gold processing plant from PMC once the mine feasibility is approved by the Mines and Geosciences Bureau. There were also a number of changes to the officers and directors of the Philippine affiliates with the new directors electing new presidents at each of the Philippine affiliates. At the same time, Cadán worked with the shareholders of the Philippine affiliates who were interested in divesting their holdings and with the newly appointed presidents of the Philippine affiliates, who will acquire these shares, such that the presidents of each affiliate will now own 60% of the outstanding shares of the company they represent.

The head office, principal and registered addresses and records office of the Company is Suite 1720, 1111 West Georgia Street, Vancouver, British Columbia.

These condensed consolidated interim financial statements are prepared on a going concern basis, which contemplates that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these condensed consolidated interim financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Adverse conditions cast significant doubt on the validity of this assumption. For the nine months ended September 30, 2011, the Company incurred a net loss of \$1,998,456 (September 30, 2010 - \$1,088,961). At September 30, 2011, the Company had a deficit attributable to the Owners of the Company of \$20,470,020 (December 31, 2010 - \$19,472,613). The Company does not generate sufficient cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities for financing. The Company's ability to continue as a going concern is dependent on its ability to secure additional financing to fund planned exploration and its ongoing administrative expenditures, and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to conduct its planned exploration, meet its administrative overhead and maintain its resource interests.

The recoverability of the Company's investment in, and expenditures on, resource properties is dependent on several factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of resource interests.

CADAN RESOURCES CORPORATION
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Notes to Condensed Consolidated Interim Financial Statements
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Nine Months Ended September 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these condensed consolidated interim financial statements.

(a) Basis of presentation

These interim financial statements are unaudited and have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 – “Interim Financial Reporting” and IFRS 1 – “First-time Adoption of IFRS,” as they are part of the period covered by the Company’s first IFRS financial statements for the year ending December 31, 2011.

Previously, the Company prepared its annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Previous GAAP”). Previous GAAP differs in some areas from IFRS. The comparative figures from 2010 have been restated to reflect these adjustments. Certain information and footnote disclosure, which are considered material to the understanding of the Company’s interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS, are provided in note 13 along with reconciliation and descriptions of the effect of the transition from previous GAAP to IFRS on equity, earnings and comprehensive income.

As these are the Company’s third set of interim financial statements in accordance with IFRS, the Company’s disclosures exceed the minimum requirements under IAS 34. The Company presents its accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company’s 2010 annual financial statements prepared in accordance with previous GAAP. In 2011 and beyond, the Company may not provide the same amount of disclosure in the Company’s interim financial statements which will be prepared in accordance with IFRS.

(b) Principles of consolidation

These Condensed Consolidated Interim Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, Exploradora La Esperanza S.A. (a Colombian company), Sabena Limited and its subsidiaries (Australian companies), Tribal Holdings Inc, Batoto Holdings Inc, and Philco Holdings Inc (Canadian companies), and Sunbird (Philippine company), and the accounts of partially-owned (40%) Philippine affiliates, Philco, Batoto and TMC, referred to throughout the condensed consolidated interim financial statements as the “Philippine companies”. The Company owns 40% of each of the Philippine companies, which have been consolidated as they meet the criteria under SIC 12, “Consolidation – Special Purpose Entities”. All significant intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interest in the net assets of consolidated partially owned Philippine affiliates are identified separately from the Company’s equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest’s share of changes in equity since the date of acquisition.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Use of estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements, and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant areas requiring the use of management estimates include: fair value of financial instruments; recoverability of investment in and expenditures on resource properties and property, plant and equipment; rates of amortization; balances of accrued liabilities; determination of provision for reclamation liability; valuation allowance for future tax assets; and the determination of the variables used in the calculation of stock-based compensation. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Amortization is recorded using the straight-line method at the following annual rates:

Buildings	- 4%
Vehicles and exploration equipment	- 20 to 50%
Office furniture and equipment	- 10 to 33%
Leasehold improvements	- 20%

i. Subsequent Costs

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

ii. Impairment

The Company's tangible assets are reviewed for indications of impairment at each balance sheet date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in comprehensive income/loss for the period.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

iii. *Reversal of impairment*

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in comprehensive income.

(f) Revenue recognition

Interest income is recognized on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(g) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Non-vesting conditions are considered in making the assumption about the number of awards that are expected to vest. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the recorded value in contributed surplus is transferred to share capital. Upon expiry, forfeiture, or cancellation the recorded value is transferred to deficit.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(i) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in comprehensive income/loss in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available.

(k) Financial instruments

(i) Financial Assets

Financial assets are classified into one of four categories: fair value through profit or loss ("FVTPL"); held-to-maturity ("HTM"); available for sale ("AFS"); and loans and receivables. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

FVTPL financial assets

Financial assets classified as FVTPL are stated at fair value with any resultant change in fair value recognized in comprehensive income/loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

HTM financial assets

HTM financial assets are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM financial assets.

AFS financial assets

Short-term investments and other assets not otherwise designated are classified as AFS and stated at fair value on the date of acquisition and each subsequent balance sheet date. Any change in fair value is recognized as other comprehensive income/loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate method.

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ii) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(l) Investment in and expenditures on resource properties

Once a permit or license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized on a property-by-property basis to investment in and expenditures on resource properties which are considered property, plant and equipment. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Management reviews the carrying value of capitalized exploration costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

(m) Provision for Reclamation Liability

The Company records a liability based on the best estimate of costs for site reclamation activities that the Company is legally or constructively required to remediate and the liability is recognized at the time environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The provision for reclamation liabilities is estimated using expected cash flows, discounted at a pre-tax rate specific to the liability.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provision for Reclamation Liability (Continued)

The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future reclamation cash flows.

Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred.

3. FINANCIAL INSTRUMENTS

The Company has classified its cash as at FVTPL; cash equivalents and amounts and advances receivable (excluding HST receivable) as loans and receivables; and accounts payable and accrued liabilities, and due to related parties, as other financial liabilities.

The carrying values of cash equivalents, amounts and advances receivable (excluding HST receivable), and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying values of amounts due to related parties approximates their fair value given the amounts are due on demand.

a) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash and cash equivalents have been placed on deposit with major Canadian, Philippine, Australian and Colombian financial institutions. The risk arises from the non-performance of counterparties of contractual financial obligations. The Company is not exposed to significant credit risk on amounts and advances receivable (excluding HST receivable).

The Company manages credit risk, in respect of cash and cash equivalents, by maintaining deposits and guaranteed investment certificates at major financial institutions with strong investment-grade ratings.

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3. FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (Continued)

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as the majority of the amounts are held with only a few Canadian and Philippine financial institutions. The Company's concentration of credit risk and maximum exposure thereto, is as follows:

	September 30, 2011	December 31, 2010
Canadian	\$ 52,845	\$ 6,399,419
Philippine	200,333	76,468
Australian	2,355	5,158
Total cash and cash equivalents	\$ 255,533	\$ 6,481,045

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash consists of cash held in bank accounts. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2011, and 2010. Future cash flows from interest income on cash will not be material. The Company manages interest rate risk by investing in highly liquid investments with maturities of one year or less.

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3. FINANCIAL INSTRUMENTS (Continued)

b) Market risk (Continued)

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

The Company is exposed to foreign currency risk with respect to cash and cash equivalents, accounts payable and accrued liabilities, and amounts due to related parties as a portion of these amounts are denominated in Philippine pesos as follows:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	8,449,317	3,355,344
Accounts payable and accrued liabilities	(775,637)	(2,706,391)
Amounts due to related parties	-	(2,359,041)
Net exposure	7,673,680	(1,710,088)
Canadian dollar equivalent	181,943	\$ (38,973)

The Company manages foreign currency risk by only holding funds in foreign currencies for short-term requirements of no more than two months. The Company has not entered into any foreign currency contracts and does not utilize derivatives to mitigate this risk.

The results of reasonably expected 1% fluctuation in the value of the Philippine peso at September 30, 2011, based on fluctuation during the quarter, would result in approximately a \$1,800 (September 30, 2010 - \$11,000) effect on net loss and comprehensive loss.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

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3. FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. Accounts payable are all due within three months of the quarter-end, and amounts due to related parties are without specific terms of repayment; however, amounts are expected to be repaid within one year. The Company will require significant cash funding to conduct its exploration programs, meet its administrative overhead costs and maintain its resource interests. This will require the Company to obtain additional financing in 2011.

4. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES

(a) Permits and licenses

Through its subsidiaries and the Philippine companies, the Company has interests in certain permits and licenses to explore and develop resource properties located in the Philippines, as described below:

- (i) Panag, Suriganon, Tagpura and Camanlangan are located in the Municipality of New Bataan, Compostela Valley Province, Philippines. The Company's area lies partly in New Bataan but mostly in the Municipality of Nabunturan, Compostela Valley Province.
- (ii) Batoto, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines.

There are no royalties payable to the government of the Philippines, as the properties are located in an indigenous area. The indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

- (iii) T'Boli, Barangay Kematu, Municipality of T'Boli, South Cotabato Province, Philippines.

There is a 2% mineral royalty payable to the government of the Philippines in respect of any future mineral production.

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4. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

(b) Expenditures on resource properties

	Panag, Suraganon and Tagpura	Batoto	T'Boli	2011 Total	December 31, 2010 Total
Acquisition costs	1,031,287	1,029,478	1,041,061	3,101,826	3,117,143
Deferred exploration costs					
Balance, beginning of of period	9,074,959	5,057,730	6,707,012	20,839,701	14,955,532
Incurred during period					
Assaying	20,247	-	30,959	51,206	58,850
Community development	16,596	35,558	118,644	170,798	259,119
Consultants	75,915	72,162	386,944	535,021	1,399,361
Depreciation and amortization	34,248	10,125	70,043	114,416	110,931
Drilling costs	202,628	1,550	474,065	678,243	317,745
Exploration and mineral processing	28,021	28,712	811,611	868,344	1,693,654
Field supplies and miscellaneous	170,794	152,920	1,159,883	1,483,597	1,358,286
Geological	90,394	63,101	139,324	292,819	80,103
Repair, Supplies & Materials	137,545	20,942	45,539	204,026	-
Taxes, licenses and fees	66,941	21,615	238,720	327,276	158,277
Transportation & Travel	32,917	9,049	140,640	182,606	447,843
Recovery on metal sales	-	-	(48,645)	(48,645)	-
	876,246	415,734	3,567,727	4,859,707	5,884,169
Balance, end of period	9,951,205	5,473,464	10,274,739	25,699,408	20,839,701
	10,982,492	6,502,942	11,315,800	28,801,234	23,956,844

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4. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

(c) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its resource exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the property may be diminished or negated.

(d) Realization of assets

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards, if an ore body is discovered, can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(e) Title to resource property interests

Although the Company has taken steps to verify the title to resource properties in which it has an interest through its permits and licenses, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

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5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Vehicles and exploration equipment	Construction in progress	Office furniture and equipment	Leasehold improvements	Total
Cost							
Balance, December 31, 2010	75,660	409,718	970,536	1,182,528	58,716	12,735	2,709,893
Additions	15,611	-	120,436	278,616	6,186	-	420,849
Balance, September 30, 2011	91,271	409,718	1,090,972	1,461,144	64,902	12,735	3,130,742
Accumulated amortization and impairment losses							
Balance, December 31, 2010	-	35,022	536,856	-	51,372	6,649	629,899
Amortization of the period	-	12,000	98,383	-	2,239	1,794	114,416
Balance, September 30, 2011	-	47,022	635,239	-	53,611	8,443	744,315
Net book value							
At December 31, 2010	75,660	374,696	433,680	1,182,528	7,344	6,086	2,079,994
At September 30, 2011	91,271	362,696	455,733	1,461,144	11,291	4,292	2,386,427

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6. SHARE CAPITAL

- (a) Authorized
Unlimited common shares without par value
- (b) Issued

At September 30, 2011, 61,999,515 (December 31, 2010 - 57,179,608) common shares were issued and outstanding.

On February 24, 2010, the Company completed a non-brokered private placement consisting of 5,144,523 units priced at \$0.85 per unit, for gross proceeds of \$4,372,845. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company at a price of \$1.25 until August 23, 2011. The Company paid finders' fees to finders in connection with the financing, of cash, \$73,666, issued 123,080 finders units with a fair value of \$116,926, and issued non-transferable finders' warrants with a fair value of \$185,346 entitling the holders to purchase up to 448,453 common shares, at a price of \$0.95 per share, until August 23, 2011. Other cash share issuance costs in the amount of \$21,934 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 1.19%; volatility of 98.6%; expected life of eighteen months; and dividend yield of nil.

On April 14, 2010, option holders exercised options and purchased 100,000 common shares at \$0.50 per share for gross proceeds of \$50,000.

On September 15, 2010, the Company completed the first tranche of a non-brokered private placement consisting of 1,953,846 units priced at \$0.65 per unit, for gross proceeds of \$1,270,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$1.00 for the first two years from the Closing date and at a price of \$1.25 for the following three years. The Company paid finders' fees in connection with the financing in cash of \$72,800, issued 7,000 finders' units with a fair value of \$4,550, and issued non-transferable finders' warrants with a fair value of \$60,416 entitling the holders to purchase up to 119,000 common shares at a price of \$1.00 per warrant until September 15, 2012, and a price of \$1.25 per warrant until September 15, 2015. Other cash share issuance costs in the amount of \$26,178 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 2.25%; volatility of 87.38%; expected life of 5 years; and dividend yield of nil.

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6. SHARE CAPITAL (Continued)

(b) Issued (Continued)

On October 18, 2010, the Company completed the second and final tranche of a non-brokered private placement consisting of 2,746,171 units priced at \$0.65 per unit, for gross proceeds of \$1,785,011. When combined with the first tranche, the Company issued a total of 4,700,017 units for gross proceeds of \$3,055,011. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$1.00 for the first two years, and, at a price of \$1.25 for the subsequent three years. In connection with the second tranche, the Company paid finders' fees in cash of \$75,496, issued 58,935 finders units with a fair value of \$38,307, and issued non-transferable finders' warrants with a fair value of \$80,695 entitling the holders to purchase up to 175,082 common shares at a price of \$1.00 per warrant share until September 15, 2012, and a price of \$1.25 per warrant share until September 15, 2015. Other cash share issuance costs in the amount of \$9,996 were incurred by the Company related to this placement. The fair value of warrants issued to finders has been estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 1.91%; volatility of 83.44%; expected life of 5 years; and dividend yield of nil.

On December 8, 2010, the Company completed a non-brokered private placement consisting of 11,000,000 units priced at \$0.65 per unit, for gross proceeds of \$7,150,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$1.10 for two years from the closing date. In connection with the private placement, the Company has issued 1,100,000 finders' units with a value of \$715,000, representing 10% of gross proceeds. Other cash share issuance costs in the amount of \$32,879 were also incurred by the Company related to this placement.

During the year ended December 31, 2010, warrant holders exercised warrants and purchased 50,000 common shares at \$0.75 per share for gross proceeds of \$37,500, 20,000 common shares at \$0.80 per share for gross proceeds of \$16,000, and, 126,000 common shares at \$0.50 per share for gross proceeds of \$63,000.

On September 2, 2011, the Company completed the first tranche of a non-brokered private placement consisting of 4,560,667 units priced at \$0.30 per unit, for gross proceeds of \$1,368,200. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of \$0.45 for two years from the Closing date. The Company paid finders' fees in connection with the financing by issuing 259,140 finders' units with a fair value of \$77,742. Other cash share issuance costs in the amount of \$8,026 were incurred by the Company related to this placement.

(c) Stock options

The Company has a stock option plan whereby the Board of Directors is authorized to grant options to a rolling ceiling of 10% of the issued and outstanding common shares of the Company.

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the

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grant. The terms of the option and the option price are fixed by the directors at the time of grant subject to restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of ten years. The vesting terms of the option are determined by the directors, however, options granted to investor relations consultants are subject to a minimum twelve-month vesting schedule whereby no more than 25% vest in any three-month period.

Stock options held by officers, directors and employees of the Company expire one year following their departure from the Company.

As at September 30, 2011, and December 31, 2010, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	September 30, 2011	December 31, 2010
July 20, 2014	\$ 0.50	840,000	1,040,000
September 30, 2014	\$ 0.50	292,500	292,500
March 1, 2015	\$ 0.95	150,000	150,000
August 17, 2015	\$ 0.50	96,000	156,000
July 12, 2016	\$ 0.50	64,000	64,000
July 24, 2017	\$ 0.50	189,900	260,000
November 6, 2017	\$ 0.50	1,174,500	1,174,500
April 15, 2018	\$ 0.50	-	100,000
April 5, 2014	\$ 0.63	450,000	-
September 21, 2016	\$ 0.45	750,000	-
		4,006,900	3,237,000

The options outstanding and exercisable at September 30, 2011, have a weighted average remaining contractual life of 4.38 years (2010 – 5.25 years). Stock option activity is as follows:

	September 30, 2011		December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, beginning of period	3,237,000	\$ 0.52	3,187,000	\$ 0.50
Awarded	1,200,000	\$ 0.50	150,000	\$ 0.95
Expired	(430,000)	\$ 0.50	-	-
Exercised	(100)	\$ 0.50	(100,000)	\$ 0.50
Outstanding and exercisable, end of period	4,006,900	\$ 0.52	3,237,000	\$ 0.52

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On September 21, 2011, the Company granted 750,000 fully vested incentive stock options. The exercise price of the options is \$0.45 each, exercisable until September 21, 2016. The fair value of stock options granted was \$152,960 (\$0.20 each), as estimated at the date of grant using the Black-Scholes option pricing model.

On April 5, 2011, the Company granted 450,000 fully vested incentive stock options. The exercise price of the options is \$0.63 each, exercisable until April 15, 2014. The fair value of stock options granted was \$189,445 (\$0.42 each), as estimated at the date of grant using the Black-Scholes option pricing model.

During the year ended December 31, 2010, the Company granted 150,000 incentive stock options. The exercise price of the options is \$0.95 each, exercisable until March 1, 2015. The fair value of stock options granted was \$122,480 (\$0.82 each), as estimated at the date of grant using the Black-Scholes option pricing model.

Stock-based compensation

The fair value of stock options granted were estimated at the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants during the first nine months ended September 30, 2011 (comparatives as at and for the year-ended December 31, 2010) as follows:

	2011	2010
Risk free rate	1.77%	2.60%
Expected life	4.25 years	5 years
Expected volatility	124.24%	89.26%
Expected dividend yield	Nil	Nil

Total stock-based compensation recognized during the nine month period ended September 30, 2011, with respect to options, was \$342,405 (2010 - \$102,630). The options were granted to consultants.

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(d) Warrants

As at September 30, 2011, and December 31, 2010, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	September 30, 2011	December 31, 2010
August 10, 2011	\$ 0.75	-	2,450,000
August 23, 2011 *	\$ 1.25	-	1,000,000
August 23, 2011	\$ 1.25	-	5,267,603
August 23, 2011	\$ 0.95	-	448,453
October 31, 2012	\$ 0.80	6,580,000	6,580,000
December 8, 2012	\$ 1.10	12,100,000	12,100,000
August 14, 2013	\$ 1.50	2,000,000	2,000,000
September 2, 2013	\$ 0.45	4,560,667	-
September 15, 2015	\$ 1.00 ⁽¹⁾	2,079,846	2,079,846
October 18, 2015	\$ 1.00 ⁽¹⁾	2,980,188	2,980,188
		30,300,701	34,906,090

⁽¹⁾ The warrants are exercisable at \$1.00 for the first two years and \$1.25 for the remaining three years.

* During the year ended December 31, 2010, the Company amended the terms of these warrants increasing them to full warrants to acquire 1,000,000 common shares, reduced the exercise price from \$1.50 to \$1.25 per share and extended the expiry date to August 23, 2011. The fair value of the amendment was \$214,346 and the fair value of the additional 500,000 warrants granted was \$258,991, as estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free rate of 0.28%, volatility of 83.37%, expected life of 1.15 years and dividend yield rate of nil. The fair value was recorded directly to deficit.

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

	September 30, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	34,906,090	\$ 1.06	12,191,660	\$ 0.92
Issued	4,560,667	\$ 0.45	22,876,090	\$ 1.11
Expired	(9,166,056)	\$ 1.10	(465,660)	\$ 0.61
Modified	-	-	(500,000)	\$ 1.50
Modified	-	-	1,000,000	\$ 1.25
Exercised	-	-	(196,000)	\$ 0.59
Outstanding, end of period	30,300,701	\$ 0.95	34,906,090	\$ 1.06

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7. RELATED PARTY TRANSACTIONS AND BALANCES

During the nine month period ended September 30, 2011, and 2010, the Company incurred consulting fees as follows:

	2011	2010
Key management	\$ 405,000	\$ 342,000
Companies controlled by directors	135,000	76,500
	\$ 540,000	\$ 418,500

Of this amount, \$450,000 (2010 - \$238,500) was expensed and \$90,000 (2010 - \$180,000) was capitalized to investment in, and expenditures on, resource properties.

At September 30, 2011, the Company owed \$Nil (December 31, 2010 - \$185,440) for consulting fees. Amounts due to related parties are non-interest-bearing, unsecured and without specific terms of repayment. Amounts are expected to be repaid within one year.

8. CONTINGENT LIABILITY

In September 2011, an Australian company filed, in Singapore, a Notice of Arbitration (the "Notice") against the Company and one of its Philippine Affiliates claiming the Company owed them AUD\$714,924 (\$722,073). The Company and its legal advisors strongly dispute the claims and consider that the Company is not liable for the claim. The Company has filed a response to the Notice requesting the claim be dismissed for lack of cause of action.

9. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, 2011	September 30, 2010
Finders' warrants (note 6(b))	\$ -	\$ 185,346
Shares issued to finders	\$ 77,742	\$ 116,926
Amounts and advances receivable related to investment in and expenditures on resource properties	\$ -	\$ 10,902
Accounts payable and accrued liabilities related to investment in and expenditures on resource properties	\$ 366,564	\$ 160,912
Due to related parties related to investment in and expenditures on resource properties	\$ -	\$ 57,154

10. CAPITAL MANAGEMENT

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its properties contain economically recoverable reserves of ore and currently has not earned any revenues from its resource property interests and, therefore, does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company considers common shares to be the capital of the Company and has issued common shares for \$48,077,800 (December 31, 2010 - \$46,717,626) to September 30, 2011. To date, the Company has not used other sources of financing that require fixed payments of interest and principal, due to lack of cash flow from current operations, and is not subject to any externally imposed capital requirements.

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The Company's objectives of capital management are intended to safeguard its ability to meet normal operating requirements on an ongoing basis and continue the development and exploration of its resource properties. To effectively manage the Company's capital requirements, the Company has in place a planning process to determine the funds required to ensure appropriate liquidity to meet its operating and growth objectives. The Company monitors actual expenses on all exploration projects and overhead to manage costs, commitments and exploration activities.

There have been no changes to the Company's approach to capital management during the year.

11. SEGMENTED INFORMATION

The Company has one operating segment: resource property exploration. The Company's corporate assets are located in Canada. The Company has investments in corporations located in the Philippines and Australia, and natural resource exploration activities have occurred in Colombia in past years.

	September 30, 2011				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 247,984	\$ 2,535	\$ 327,644	\$ -	\$ 578,163
Deferred exploration costs	-	-	28,801,234	-	28,801,234
Property, plant and equipment	-	-	2,386,427	-	2,386,427
Total Assets	\$ 247,984	\$ 2,535	\$ 31,515,305	\$ -	\$ 31,765,824
Total Liabilities	\$ 246,782	\$ -	\$ 18,390	\$ -	\$ 265,172
	December 31, 2010				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 6,473,459	\$ 6,362	\$ 84,950	\$ -	\$ 6,564,771
Deferred exploration costs	455,815	-	23,501,029	-	23,956,844
Property, plant and equipment	-	-	2,079,994	-	2,079,994
Total Assets	\$ 6,929,274	\$ 6,362	\$ 25,665,973	\$ -	\$ 32,601,609
Total Liabilities	\$ 626,936	\$ 2,203	\$ 115,441	\$ 109,000	\$ 853,580

12. SUBSEQUENT EVENT

In November 2011, the Company announced that it has signed a binding Heads of Agreement with Mining Group Limited ("Mining Group" or "MGL") whereby Mining Group may acquire an 80% interest in the Comval copper-gold project located in the Compostella Valley, Philippines. Cadan will retain a 20% interest which is free and carried until the Mining Group has incurred a minimum of AUD\$48 million of expenditures on the Comval Project. Pursuant to the terms of the Heads of Agreement, Mining Group may acquire an 80% interest in Philco Mining Corporation ("PMC") by:

- paying AUD\$1,000,000 to Cadan as a secured loan to be credited in full towards the purchase price. In the event that the transaction with MGL does not proceed, the loan is repayable in 12 months plus accrued interest at the rate of LIBOR plus 2%. Cadan has granted MGL security over the shares of PMC and EP2 as security for the Loan;

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- at closing, MGL will pay to Cadan a further AUD\$2,000,000 and issue 2,600,000 fully paid ordinary shares of MGL;
- when (and if) MGL's share price trades at or above AUD\$1 for 30 consecutive days, MGL will issue to Cadan a further 2,600,000 shares; and
- subject to certain conditions being met within 24 months of closing of the Transaction (which period may be extended by up to a further 24 months) MGL will pay a further AUD\$1,000,000 to Cadan.

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13. TRANSITION TO IFRS

As stated in note 2, these are the Company's third condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended September 30, 2011, and the comparative information presented in these financial statements for the period ended September 30, 2010.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1)

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle. One mandatory exception relevant to Cadan stipulates that where a subsidiary of a parent entity has previously prepared financial statements in full compliance with IFRS, the carrying amounts reported in those stand alone financial statements must be used as the basis for the subsidiaries' inclusion in the consolidated transition balance sheet. Cadan's subsidiaries have previously prepared audited financial statements in full compliance with IFRS and therefore are excluded from applying the optional elections set out in IFRS 1 at Cadan's transition date. However, on a consolidated basis, Cadan is not precluded from adopting accounting policies which differ from those previously applied by a subsidiary in its stand alone financial statements. Any accounting policy differences are required to be aligned on consolidation.

Share-based payments

The Company has elected under IFRS 1 to not apply IFRS 2 to options that were granted on, or before, November 7, 2002, or to options that were granted subsequent to November 7, 2002, but vested before the date of transition to IFRS.

Business combinations

The Company has elected to apply IFRS 3, *Business Combinations*, prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

Adjustments on transition to IFRS

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change Cadan's actual cash flows, it resulted in changes to Cadan's Balance Sheet, Statement of Comprehensive Loss and Statement of Changes in Equity as set out below:

(a) Non-controlling interest:

Under Canadian GAAP, when the non-controlling interest is not obligated to fund its share of losses, the Company does not attribute losses to the non-controlling interest once the interest has been reduced to nil. Under IFRS, the Company is required prospectively from the transition date to allocate comprehensive losses to non-controlling interest based on their effective interest, even if this results in a deficit non-controlling interest balance. Further, non-controlling interest was not reported as a component of shareholders' equity under Canadian GAAP.

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13. TRANSITION TO IFRS (Continued)

(b) Deferred tax:

Under Canadian GAAP, a deferred tax asset or liability is not recognized for temporary differences arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations. Under IFRS, a deferred tax asset or liability is recognized for exchange gains and losses related to foreign non-monetary assets and liabilities that are re-measured in the functional currency using current exchange rates.

Impact on consolidated balance sheets:

	December 31, 2010	September 30, 2010
Deferred tax liability	\$ -	\$ -
Adjustment to deficit	\$ -	\$ -

Impact on the consolidated statement of loss and comprehensive loss:

	December 31, 2010	Nine month ended September 30 2010	Three month ended September 30 2010
Deferred tax expense (recovery)	\$ (37,808)	\$ -	\$(55,498)
Adjustment to net loss and comprehensive loss	\$ (37,808)	\$ -	\$ (55,498)

(c) Share based payments

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired stock options and warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

Impact on consolidated balance sheet:

	December 31, 2010	September 30, 2010
Contributed surplus	\$ (3,304,890)	\$ (3,304,890)
Adjustment to deficit	\$ 3,304,890	\$ 3,304,890

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13. TRANSITION TO IFRS (Continued)

(d) Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following Balance Sheet at September 30, 2010 and Statements of Comprehensive Loss for the three months and nine months ended September 30, 2010. The effects of transition from GAAP to IFRS on the cash flow are immaterial. Therefore, a reconciliation of cash flows has not been presented.

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13. TRANSITION TO IFRS (Continued)

(d) Reconciliation to previously reported financial statements (Continued)

The September 30, 2010, Canadian GAAP Consolidated Balance Sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current			
Cash and cash equivalents	\$ 1,462,428	\$ -	\$ 1,462,428
Amounts and advances receivable	28,138	-	28,138
Prepaid expenses	17,687	-	17,687
	1,508,253	-	1,508,253
Investment in and Expenditures on Resource Properties	21,790,949	-	21,790,949
Property, Plant and Equipment	1,905,132	-	1,905,132
	\$ 25,204,334	\$ -	\$ 25,204,334
Liabilities			
Current			
Accounts payable and accrued liabilities	\$ 383,524	\$ -	\$ 383,524
Due to related parties	71,212	-	71,212
	381,936	-	381,936
Deferred Income Taxes (note 13(b))	-	-	-
	381,936	-	381,936
Non-Controlling Interest (note 13(a))	-	-	-
Shareholders' Equity			
Share Capital	37,845,424	-	37,845,424
Share Subscriptions	937,655	-	937,655
Contributed Surplus (note 13(c))	7,874,594	(3,304,890)	4,569,704
Deficit (note 13(a) & (c))	(21,908,075)	3,307,459	(18,600,616)
Equity Attributable to Owners	24,749,598	2,569	24,752,167
Non-Controlling Interest (note 13(a))	-	(2,569)	(2,569)
	24,749,598	-	24,749,598
	\$ 25,204,334	\$ -	\$ 25,204,334

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13. TRANSITION TO IFRS (Continued)

(d) Reconciliation to previously reported financial statements (Continued)

For the nine months ending September 30, 2010, Canadian GAAP Statement of Comprehensive Loss has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses			
Consulting fees	\$ 470,800	\$ -	\$ 470,800
Stock-based compensation	122,480	-	122,480
Regulatory and shareholder costs	102,107	-	102,107
Legal and professional	102,663	-	102,663
Office and miscellaneous	88,312	-	88,312
Travel and accommodation	66,127	-	66,127
Web site	12,652	-	12,652
Bank charges and interest	6,061	-	6,061
Rent	61,864	-	61,864
Depreciation and amortization	212	-	212
Loss Before Other Items	(1,033,278)	-	(1,033,278)
Other Items			
Interest income	3,321	-	3,321
Foreign exchange loss	(59,004)	-	(59,004)
Loss Before Deferred tax expense	(1,088,961)	-	(1,088,961)
Deferred tax recovery (expense) (note 13(b))	-	-	-
Loss Before Non-Controlling Interest	(1,088,961)	-	(1,088,961)
Non-Controlling Interest (note 13(a))	50,083	(50,083)	-
Net Loss and Comprehensive Loss for Period	(1,038,878)	(50,083)	(1,088,961)
Comprehensive loss attributed to:			
Owners of the Company	(1,038,878)	-	(1,038,878)
Non-Controlling Interest (note 13(a))	-	(50,083)	(50,083)
	(1,038,878)	(50,083)	(1,088,961)

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13. TRANSITION TO IFRS (Continued)

(d) Reconciliation to previously reported financial statements (Continued)

For the three months ending September 30, 2010, Canadian GAAP Statement of Comprehensive Loss has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses			
Consulting fees	\$ 224,800	\$ -	\$ 224,800
Stock-based compensation	-	-	-
Regulatory and shareholder costs	19,464	-	19,464
Legal and professional	11,508	-	11,508
Office and miscellaneous	37,773	-	37,773
Travel and accommodation	5,993	-	5,993
Web site	1,500	-	1,500
Bank charges and interest	1,234	-	1,234
Rent	22,150	-	22,150
Depreciation and amortization	-	-	-
Loss Before Other Items	(324,422)	-	(324,422)
Other Items			
Interest income	1,454	-	1,454
Foreign exchange loss	(40,865)	-	(40,865)
Loss Before Deferred tax expense	(363,833)	-	(363,833)
Deferred tax recovery (expense) (note 13(b))	-	55,498	55,498
Loss Before Non-Controlling Interest	(363,833)	55,498	(308,335)
Non-Controlling Interest (note 13(a))	26,639	(26,639)	-
Net Loss and Comprehensive Loss for Period	(337,194)	28,859	(308,335)
Comprehensive loss attributed to:			
Owners of the Company	(337,194)	55,498	(281,696)
Non-Controlling Interest (note 13(a))	-	(26,639)	(26,639)
	(337,194)	28,859	(308,335)