



## **CADAN RESOURCES CORPORATION**

**Condensed Consolidated Interim Financial Statements  
Three month periods ended March 31, 2013 and 2012  
(Expressed in Canadian Dollars)**

**Unaudited - Prepared by Management**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Condensed Consolidated Interim Financial Statements</b>	
Condensed Consolidated Interim Balance Sheets	1
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)	2
Condensed Consolidated Interim Statements of Changes in Equity	3
Condensed Consolidated Interim Statements of Cash Flows	4 - 5
Notes to the Condensed Consolidated Interim Financial Statements	5 – 25

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Financial Statements**

31 March 2013

(Unaudited – See “Notice to Reader” on following page)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the condensed interim financial statements for the period ended 31 March 2013.

## NOTICE TO READER OF THE FINANCIAL STATEMENTS

The condensed consolidated interim financial statements of Cadan resources Corporation (the "Company"), comprised of the condensed consolidated interim statement of financial position as at 31 March 2013 and the condensed consolidated interim statements of loss and comprehensive loss, cash flows and changes in equity for the three months ended 31 March 2013 and 2012 are the responsibility of the Company's management. These condensed consolidated interim financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Smythe Ratcliff Chartered Accountants.

The condensed consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards.

*"Robert G Butchart"*

.....  
Robert G Butchart, Chief Executive Officer

29 May 2013

*"Derick Sinclair"*

.....  
Derick Sinclair, Chief Financial Officer

29 May 2013

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Balance Sheets**  
**Unaudited**  
**(Expressed in Canadian dollars)**

	March 31, 2013	December 31, 2012
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 134,550	\$ 298,436
Amounts and advances receivable	-	1,157,789
Prepaid expenses	316,890	221,462
	451,440	1,677,687
<b>Exploration and evaluation assets</b> (note 4)	29,642,400	28,025,990
<b>Investment in Mining Group Ltd.</b> (note 7)	281,114	557,805
<b>Investment in Agusan Metals Corporation</b> (notes 5 & 6)	1,119,284	1,198,185
<b>Loan to Agusan Metals Corporation</b> (notes 5 & 6)	10,307,538	10,307,538
<b>Property, plant and equipment</b> (note 8)	2,487,252	2,545,308
	\$ 44,289,028	\$ 44,312,513
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,255,388	\$ 1,980,508
Convertible notes (note 10)	2,464,548	720,008
Due to related parties (note 12)	35,440	300,000
	4,755,376	3,000,516
<b>Retirement benefit obligation</b> (note 13)	230,106	208,212
	4,985,482	3,208,728
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 11)	55,288,527	55,286,616
<b>Reserves</b>	5,022,420	3,840,484
<b>Deficit</b>	(20,245,170)	(17,585,281)
<b>Equity attributable to owners of the company</b>	40,065,777	41,541,819
<b>Non-controlling interest</b>	(762,231)	(438,034)
	39,303,546	41,103,785
	\$ 44,289,028	\$ 44,312,513

Approved on behalf of the Board:

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

Robert G Butchart

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

Doug Evans

See notes to the condensed consolidated interim financial statements

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Statements of Comprehensive Income (Loss)**  
**Unaudited**  
**(Expressed in Canadian dollars)**

	<b>Three months ended March</b>	
	<b>2013</b>	<b>2012</b>
<b>Expenses</b>		
Consulting fees	\$ 361,551	\$ 746,556
Legal and professional	81,952	125,565
Travel	64,343	31,976
Office and miscellaneous	62,217	24,445
Regulatory and shareholder costs	36,317	12,270
Rent	32,957	28,708
Amortization	1,356	464
Bank charges and interest	515	77,253
Web site	-	1,800
<b>Loss before other items</b>	<b>(641,208)</b>	<b>(1,049,037)</b>
<b>Other items</b>		
Gain on sale of subsidiary (notes 5 & 6)	-	5,033,644
Change in fair value of contingent consideration	(189,580)	-
Share of loss in equity accounted investment (notes 5 & 6)	(78,901)	(203)
Unrealized gain (loss) on derivative (note 7)	(129,641)	737,972
Foreign exchange loss	(287,945)	(60,911)
Interest expense	(1,288,792)	2,803
Net income (loss) before taxes	(2,616,067)	4,664,268
Deferred tax expense	(217,658)	-
<b>Net Income (Loss)</b>	<b>\$ (2,833,725)</b>	<b>\$ 4,664,268</b>
<b>Other Comprehensive loss</b>		
Unrealized loss on shares held for resale (note 7)	(463,550)	(147,435)
<b>Comprehensive Income (Loss)</b>	<b>\$ (3,297,275)</b>	<b>\$ 4,516,833</b>
<b>Comprehensive income (loss) attributed to:</b>		
Owners of the Company	\$ (2,973,078)	\$ 4,551,340
Non-Controlling Interest	(324,197)	(34,507)
	<b>\$ (3,297,275)</b>	<b>\$ 4,516,833</b>
<b>Gain/(Loss) Per Share – basic</b>	<b>(\$0.03)</b>	<b>\$0.06</b>
<b>Gain/(Loss) Per Share – diluted</b>	<b>n/a</b>	<b>\$0.04</b>
<b>Weighted Average Number of Common Shares</b>		
<b>Outstanding</b>	<b>116,499,584</b>	<b>78,369,515</b>

See notes to the condensed consolidated interim financial statements

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**Unaudited**  
**(Expressed in Canadian dollars)**

	Number of shares issued	Share capital	Share-based payments reserve	Revaluation reserve	Deficit	Equity attributable to owners of the Company	Non- Controlling Interest	Shareholders' Equity
<b>Balance at Dec 31, 2011</b>	78,369,515	50,278,839	4,553,870	-	(21,648,598)	33,184,111	(410,752)	32,773,359
Net loss for period	-	-	-	(147,435)	-	(147,435)	-	(147,435)
Non-controlling interest	-	-	-	-	-	-	122,564	122,564
Net comprehensive loss for period	-	-	-	-	4,698,775	4,698,775	(34,507)	4,664,268
<b>Balance at March 31, 2012</b>	78,369,515	50,278,839	4,553,870	(147,435)	(16,949,823)	37,735,451	(322,695)	37,412,756

	Number of shares issued	Share capital	Share-based payments reserve	Revaluation reserve	Deficit	Equity attributable to owners of the Company	Non- Controlling Interest	Shareholders' Equity
<b>Balance at Dec 31, 2012</b>	116,499,584	55,286,616	5,303,680	(1,463,196)	(17,585,281)	41,541,819	(438,034)	41,103,785
Share issue cost	-	1,911	-	-	-	1,911	-	1,911
Unrealized gain on shares and options held for resale	-	-	-	(463,550)	463,550	-	-	-
Discount attributed to the convertible note conversion features	-	-	1,645,486	-	-	1,645,486	-	1,645,486
Reclassification of prior year interest charged to Deferred Exploration	-	-	-	-	(150,361)	(150,361)	-	(150,361)
Net comprehensive loss for period	-	-	-	-	(2,973,078)	(2,973,078)	(324,197)	(3,297,275)
<b>Balance at March 31, 2013</b>	116,499,584	55,288,527	6,949,166	(1,926,746)	(20,245,170)	40,065,777	(762,231)	39,303,546

See notes to the condensed consolidated interim financial statements

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**Unaudited**  
**(Expressed in Canadian dollars)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2012</b>
<b>Operating Activities</b>		
Net income (loss)	\$ (2,833,725)	\$ 4,664,268
Items not involving cash		
Deferred tax expense	217,658	-
Amortization	1,356	54,318
Interest income	1,281,428	74,913
Unrealized (gain) loss on derivative	129,641	(737,972)
Gain on sale of subsidiary	-	(5,033,644)
Change in fair value of contingent consideration	189,580	-
Share of loss in equity accounted investment	78,901	203
Unrealized gain on foreign exchange	73,841	36,217
	(861,320)	(941,697)
Changes in non-cash working capital		
Amounts receivable and advances	440,709	(21,871)
Prepaid expenses	(95,428)	39,232
Retirement benefit obligation	-	(107,530)
Due from related parties	(300,000)	-
Accounts payable and accrued liabilities	310,320	(32,125)
	355,601	(122,294)
<b>Cash Used in Operating Activities</b>	<b>(505,719)</b>	<b>(1,063,991)</b>
<b>Investing Activities</b>		
Deferred exploration costs (note 4)	(1,466,460)	(2,159,175)
Investment in Mining Group Ltd	-	(126,024)
Purchase of capital assets	(71,356)	(287,932)
<b>Cash Used in Investing Activities</b>	<b>(1,537,816)</b>	<b>(2,573,131)</b>
<b>Financing Activities</b>		
Repayment of secured loan	-	(1,044,190)
Accrued interest on convertible notes	68,510	-
Finder's fees	(247,650)	-
Share issuance costs	(1,911)	-
Proceeds on issuance of convertible notes	2,060,700	-
Proceeds on sale of Agusan Metals Corporation	-	3,150,600
Proceeds on sale of Agusan Metals Corporation	-	3,150,600
<b>Cash Provided by Financing Activities</b>	<b>1,879,649</b>	<b>2,106,410</b>
<b>Inflow (Outflow) of Cash</b>	<b>(163,886)</b>	<b>(1,530,712)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>298,436</b>	<b>3,584,642</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 134,550</b>	<b>\$ 2,053,930</b>

**CADAN RESOURCES CORPORATION**  
**Condensed Consolidated Interim Statements of Cash Flows (Continued)**  
**Unaudited**  
**(Expressed in Canadian dollars)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2012</b>
<b>Cash and cash equivalents comprised of:</b>		
Cash	\$ 134,550	\$ 803,930
Cash equivalents	-	1,250,000
	<b>\$ 134,550</b>	<b>\$ 2,053,930</b>

See notes to the condensed consolidated interim financial statements



**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**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.

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

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated 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 Company’s ability to continue as a going concern. For the three months ended March 31, 2013, the Company had comprehensive loss of \$3,297,275 (March 31, 2012 – comprehensive income of \$4,516,832). At March 31, 2012, the Company had an accumulated deficit of \$20,245,170 (December 31, 2012 - \$17,585,281). The Company has not yet demonstrated an ability to produce a sustained source of revenue to satisfy its significant cash requirements to conduct its planned exploration, progress the approval process for development of the T’Boli mine and processing plant, meet its repayment obligations on its convertible debt and meet its administrative overhead and maintain its resource interests. The Company has 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, development of the T’Boli mine and processing plant, meet its repayment obligations on its convertible debt 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 recoverability of the Company’s investment in, and expenditures on, exploration and evaluation assets 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.

**2. BASIS OF PRESENTATION**

(a) Statement of Compliance

These condensed consolidated interim financial statements are 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, *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**2. BASIS OF PRESENTATION (Continued)**

(b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the three month period ended March 31, 2013, were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 29, 2013.

(c) Use of judgments and estimates

The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, significant judgments made by management in the application of IFRS during the preparation of the consolidated financial statements and estimates with a risk of material adjustment are:

(i) Realization of assets

The investments in Philco Mining, Mining Group Ltd. ("Mining Group") and exploration and evaluation assets, and the loan to Philco Mining comprise a significant portion of the Company's assets. Realization of the Company's investments and loan receivable are dependent upon the Company or Mining Group obtaining permits for exploration or development of resource claims, the satisfaction of governmental requirements, satisfaction of possible aboriginal claims, the attainment of successful production from the properties, or from the proceeds upon disposal of the Company's interests therein. 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.

(ii) Environmental

Environmental legislation is becoming increasingly stringent and the costs 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 of mineral resource properties, the potential for production on the properties may be diminished or negated.

The Company is subject to 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 mineral exploration activities in compliance with applicable environmental protection legislation.

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations, are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit-adjusted risk-free rate.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**3. BASIS OF PRESENTATION (Continued)**

(c) Use of judgments and estimates (continued)

(i) Environmental (continued)

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.

(ii) Valuation of receivables

The loan to Philco Mining has no stated terms of repayment or interest rate attached to it. The amount receivable from Mining Group (notes 4 and 18(d)) is due to the Company in March 2013. Management must make judgments about the valuation and recoverability of these receivables. Events and circumstances arising during the year or that are foreseeable at year-end are reflected in the valuation of these amounts receivable in the consolidated balance sheets and reflect management's best estimate of the fair value of these financial instruments. However, these receivables are tied to resource exploration and development, which is highly speculative and involves inherent risks.

(iv) Impairment assessment

Annually, the Company assesses whether its assets' carrying values are greater than their recoverable values. The recoverable value is the higher of an assets' fair value, less costs to sell, and its value in use. Given the nature of the Company's assets, generally their recoverable values are their value in use. The Company generally estimates value in use using a discounted cash flow model. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets. The Company has reviewed its most recent economic models and forecasts in assessing whether a potential impairment has occurred. The assumptions that the calculation of value in use is most sensitive to are production volume, metal prices, discount rates, operating costs, and development and construction costs.

(v) Contingencies

By their nature, contingencies, including the retirement benefit obligation, will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events, including the use of actuarial assumptions.

(vi) Fair value hierarchy

Where the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
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**Three Month Periods Ended March 31, 2013 and 2012**

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**3. BASIS OF PRESENTATION (Continued)**

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 judgments and estimates include: fair value of financial instruments; recoverability of investment in and expenditures on exploration and evaluation assets and property, plant and equipment; rates of amortization; balances of accrued liabilities; determination of provision for reclamation liability; the determination of the variables used in the calculation of share-based payments; and actuarial assumptions for retirement benefit obligations. 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) 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 (loss).

**3. FINANCIAL INSTRUMENTS**

The Company has classified its cash and cash equivalents as fair value through profit or loss (FVTPL); amounts and advances receivable (excluding HST receivable) as loans and receivables; and accounts payable and accrued liabilities, secured loans, convertible notes, and due to related parties, as other financial liabilities.

The carrying values of cash and cash equivalents, amounts and advances receivable (excluding HST receivable), accounts payable and accrued liabilities, and secured loans approximate their fair values due to the short-terms to maturity of these financial instruments. The carrying values of amounts due to related parties approximates their fair value as the amounts are due on demand. The carrying values of convertible notes were determined, in accordance with level 2 of the fair value hierarchy, by discounting the face value of the notes over the one year term of the notes by 2.5% (LIBOR plus 2%) and accreting the discount over 12 month term to the anticipated conversion date of the notes.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**3. FINANCIAL INSTRUMENTS (Continued)**

(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 and Australian 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.

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:

		<b>March 31, 2013</b>		<b>December 31, 2012</b>
Canadian dollar	\$	126,725	\$	200,379
Philippine peso		7,825		98,057
<b>Total cash and cash equivalents</b>	<b>\$</b>	<b>134,550</b>	<b>\$</b>	<b>298,436</b>

The Company is also exposed to credit risk with respect to its amounts and advance receivable and Loan to Agusan Metals Corporation ("Agusan") (note 6). The Company maintains an equity investment in Agusan and receives periodic financial information from Mining Group Ltd. ("Mining Group") and Agusan with respect to that investment. The Company actively monitors the status of Agusan and Mining Group to minimize the credit risk related to this \$10,307,538 loan. Other amounts receivable relate to input tax credits.

(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.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
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**Three Month Periods Ended March 31, 2013 and 2012**

**3. FINANCIAL INSTRUMENTS (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

(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 and cash equivalents consists of cash held in bank accounts and funds held in trust. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on their estimated fair values as of March 31, 2013, and 2012. 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.

(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:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Cash and cash equivalents	314,776	1,751,535
Accounts payable and accrued liabilities	(67,225,005)	(47,934,741)
Net exposure	(66,910,229)	(46,183,405)
Canadian dollar equivalent	\$1,663,388	\$1,120,405

The Company manages foreign currency risk by only holding funds in foreign currencies for short-term requirement. The Company has not entered into any foreign currency contracts and does not utilize derivatives to mitigate this risk.

A 1% fluctuation in the value of the Philippine peso and Australian dollar at March 31, 2013 would result in a change to net income (loss) and comprehensive income (loss) by approximately \$17,000 (December 31, 2012 - comprehensive income of \$1,000).

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**Unaudited**  
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**Three Month Periods Ended March 31, 2013 and 2012**

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**3. FINANCIAL INSTRUMENTS (Continued)**

(b) Market risk (continued)

(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 exposed to other price risk through its investment in marketable securities of Mining Group, which are valued at each reporting date at their market price (note 7). During the three months, the marketable securities of Mining Group decreased in value by 68%, resulting in an unrealized loss recorded in accumulated other comprehensive loss of \$593,191.

(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 and amounts due to related parties are without specific terms of repayment; however, they are expected to be repaid within one year. The Company's convertible notes are due June 21, 2013 and January 2015 (note 10).

The Company will require significant cash funding to conduct its exploration programs, meet its administrative overhead costs, meet its repayment obligations on the convertible notes and maintain its resource interests and bring its T'Boli gold processing plant to full production capacity. This will require the Company to obtain additional financing.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**Three Month Periods Ended March 31, 2013 and 2012**

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**4. EXPLORATION AND EVALUATION ASSETS**

(a) Permits and licenses

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

- (i) Panag, Suriganon, Tagpura and Camanlangan are located in the municipalities of New Bataan and Nabunturan, Compostela Valley Province, Philippines. The Company completed the sale of 80% of the Company's interests in Agusan. (notes 5 & 6) January 17, 2012, and has retained a free-carried interest of 20% in Agusan (notes 5 & 6).
- (ii) Batoto, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines

There are no royalties payable to the government of the Philippines because 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.

The Company has received the MGB's Declaration of Mining Project Feasibility enabling the Company to commence commercial mining production at the T'Boli gold-silver mine within the Mineral Processing and Sharing Agreement.



**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**4. EXPLORATION AND EVALUATION ASSETS (Continued)**

(b) Expenditures on exploration and evaluation assets

	Batoto	T'Boli	2013 Total	2012 Total
Acquisition costs	1,029,478	1,041,061	2,070,539	2,070,539
Deferred exploration costs				
Balance, beginning of period	6,108,807	19,846,644	25,955,451	17,152,234
Incurring during period				
Assaying	1,043	-	1,043	98,522
Community development	9,066	403,421	412,487	655,174
Consultants	13,619	383,884	397,503	1,345,980
Drilling costs	-	-	-	661,212
Exploration and mineral processing	1,613	(45,997)	(44,384)	1,930,369
Geological	-	-	-	12,682
Mill Site	-	560,294	560,294	232,867
Field supplies, admin expenses	35,758	916,319	952,077	3,414,789
Taxes, licenses and fees	2,625	(66,890)	(64,265)	91,863
Transportation & Travel	1,274	-	1,274	485,254
Depreciation and amortization	3,273	16,269	19,542	308,707
Other Exploration Costs	29,837	-	29,837	-
Recovery on metal sales	-	(648,998)	(648,998)	(434,202)
Total for period	98,108	1,518,302	1,616,410	8,803,217
Balance, end of period	6,206,915	21,364,946	27,571,861	25,955,451
	7,236,393	22,406,007	29,642,400	28,025,990

(b) 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.

(c) Realization of assets

The investment in and expenditures on exploration and evaluation assets 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 underlying properties or from the proceeds of their disposal.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**4. EXPLORATION AND EVALUATION ASSETS (Continued)**

(b) Realization of assets (continued)

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.

(c) Title to exploration and evaluation asset interests

Although the Company has taken steps to verify the title to exploration and evaluation asset interests for which it has a permit and/or license, 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.

**5. SALE OF AGUSAN METALS CORPORATION (Formerly Philco Mining Corporation)**

On February 19, 2013, Philco Mining Corporation changed its name to Agusan.

On January 17, 2012, the Company completed the sale of 80% of the Company's interests in Agusan and granted Mining Group (the purchaser) an option to acquire an 80% interest in Batoto. The Company received cash consideration of \$3,150,600 (AUS\$3,000,000) and 2,600,000 Mining Group common shares with a fair value, on January 17, 2012, of \$1,774,838 (AUS\$1,690,000). The Company has the right to receive an additional 2,600,000 Mining Group common shares if the trading price of Mining Group common shares is above AUS\$1 for 30 consecutive days, expiring January 17, 2014. No value has been ascribed to the additional 2,600,000 Mining Group common shares due to their contingent nature.

The Company retains a 20% investment in Agusan (note 6). The retained investment was revalued to its fair value of \$1,231,360 (note 5), resulting in a revaluation gain of \$1,106,360, included in the gain on sale of Agusan for the year ended December 31, 2012.

The Company recorded a total gain of \$5,142,189 arising from the sale and revaluation of its remaining investment in Philco, for the year ended December 31, 2012.

The Company also had the right to contingent consideration of \$1,033,580 (AUS\$1,000,000) if the Company settled a dispute of \$722,073 (AUS\$714,924) against the Company and Philco. The Company settled the dispute for \$321,988, thereby fulfilling the requirements under the agreement to receive the contingent consideration of \$1,033,850 (AUS\$1,000,000), which was recorded in amounts and advances receivable as at December 31, 2012. The contingent consideration of \$1,033,580 (AUS\$1,000,000) was recorded at inception for \$nil, which represented management's best estimate of its fair value. Upon settlement during the quarter ended September 30, 2012, a fair value gain was recognized of \$1,033,580 (AUS\$1,000,000). On March 14, 2013 the Company settled the AUS\$1,000,000 debt for AUD\$500,000 in cash and 5,592,381 Mining Group common shares valued at \$316,500 on the date of settlement and reported a loss on settlement in the quarter of \$189,580.

On October 17, 2012, the option to acquire 80% of its interests in Batoto by Mining Group expired unexercised.

## CADAN RESOURCES CORPORATION

### Notes to the Condensed Consolidated Interim Financial Statements

#### Unaudited

(Expressed in Canadian dollars, unless otherwise stated)

Three Month Periods Ended March 31, 2013 and 2012

#### 5. SALE OF AGUSAN (Formerly Philco Mining) (Continued)

Under the terms of the agreement, the Company exercised an option to purchase (i) 500,000 Mining Group common shares at \$0.20 per share for \$105,020 (AUS\$100,000), and (ii) 2,000,000 options for \$0.01 per option for \$21,004 (AUS\$ 20,000), each such option to purchase a Mining Group share for AUS\$0.20 until January 17, 2014. The Company repaid the secured loan of \$1,044,190 (AUS\$1,000,000) (notes 10 and 16) from the proceeds.

Pursuant to a shareholders' agreement, Mining Group has an obligation to fund AUS\$48,000,000 in exploration activity in Agusan as follows:

<b>Exploration Expenditures</b>	<b>Annual amount (AUS\$)</b>	<b>Cumulative amount (AUS\$)</b>
Year 1	5,000,000	Nil
Year 2	5,000,000	Nil
Year 3	5,000,000	15,000,000
Year 4	15,000,000	30,000,000
Year 5	18,000,000	48,000,000

The annual amounts in the table above are the expected schedule of expenditures, the cumulative amount is the funding requirement schedule. Should Mining Group not meet the funding requirements, the agreement contains dilution provisions. Upon Mining Group funding the project to AUS\$48,000,000, both the Company and Mining Group will fund further development pro rata based on their ownership interests. Mining Group reported AUS\$2.9 million in exploration expenditures in 2012, which contributes to the minimum exploration amount of AUS\$15 million required by the end of the third year.

#### 6. INVESTMENT IN AND LOAN TO AGUSAN METALS CORPORATION

Pursuant to the January 17, 2012, sale of an 80% interest in Agusan (note 4), the Company retained a 20% investment in Agusan. The investment is accounted for as an investment in an associate using the equity method. The 20% retained investment was revalued on the date of sale at \$1,231,360. The carrying amount is as follows:

Investment amount	\$ 1,231,360
Share of net loss	(112,076)
Carrying amount	\$ 1,119,284
Loan to Agusan	\$ 10,307,538

The Company's advances to Agusan are unsecured, non-interest-bearing and have no specified terms of repayment. Pursuant to a shareholders' agreement, the Company's advance to Agusan will rank equally with amounts advanced by Mining Group for exploration expenditures on the Agusan copper-gold project. The advances will be repaid first from distribution of profits on a proportional basis until each advance is repaid.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**7. INVESTMENT IN MINING GROUP LTD.**

Pursuant to the January 17, 2012, sale of an interest in Agusan (note 5), the Company acquired 3,100,000 common shares of Mining Group and 2,000,000 share purchase options. Each option is exercisable to acquire one Mining Group common share for AUS\$0.20 until January 17, 2014. On March 14, 2013 the Company accepted 5,592,381 common shares of Mining Group valued at \$316,500 as partial settlement of a debt (note 5).

At March 31, 2013, the fair value of the 8,692,381 shares is \$269,612 and of the options (derivative financial instruments) is \$11,503.

The Company recorded an unrealized loss of \$129,641 on the options in net income and an unrealized loss of \$463,550 on the shares in other comprehensive income for the period January 1, 2013 to March 31, 2013.

**8. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Vehicles and exploration equipment	Construction in progress	Office furniture and equipment	Leasehold improvements	Total
<b>Cost</b>							
<b>Balance, December 31, 2011</b>	181,645	409,718	1,224,176	1,482,660	68,095	12,735	3,379,029
<b>Disposition of Philco Mining</b>	903	(1,382)	(616,577)	(1,482,660)	(47,396)	(12,735)	(2,159,847)
<b>Additions</b>	-	-	1,824,319	17,403	40,690	-	1,882,412
<b>Balance, December 31, 2012</b>	182,548	408,336	2,431,918	17,403	61,389	-	3,101,594
<b>Additions</b>	-	-	69,672	892	792	-	71,356
<b>Balance, March 31, 2013</b>	182,548	408,336	2,501,590	18,295	62,181	-	3,172,950
<b>Accumulated amortization and impairment losses</b>							
<b>Balance, December 31, 2011</b>	-	51,022	674,136	-	54,788	113	780,059
<b>Disposition of Philco Mining</b>	-	242	(480,777)	-	(46,668)	(113)	(527,316)
<b>Amortization</b>	-	16,276	271,249	-	16,018	-	303,543
<b>Balance, December 31, 2012</b>	-	67,540	464,608	-	24,138	-	556,286
<b>Amortization</b>	-	4,273	120,316	-	4,823	-	129,412
<b>Balance, March 31, 2013</b>	-	71,813	584,924	-	28,961	-	685,698
<b>Net book value</b>							
<b>Balance, December 31, 2011</b>	181,645	358,696	550,040	1,482,660	13,307	12,622	2,598,970
<b>Balance, December 31, 2012</b>	182,548	340,796	1,967,310	17,403	37,251	-	2,545,308
<b>Balance, March 31, 2013</b>	182,548	336,523	1,916,666	18,295	33,220	-	2,487,252

**9. SECURED LOAN**

On November 4, 2011, Mining Group issued to the Company an Aus\$1 million (\$1,044,190) secured loan (the "MGL Loan") (note 4). The MGL Loan was secured with a chattel mortgage on a specified exploration permit. The loan matured November 7, 2012, or earlier if the Company completed an agreement with Mining Group to effect the sale of 80% of the Company's interest in the Panag, Suriganon and Tagpura properties (the "Tagpura Property"). The loan accrued interest at the rate of LIBOR plus 2%, but the interest would be forgiven should the Company and Mining Group complete the sale of the interest in the Tagpura Property. On January 17, 2012, the Company concluded the sale and the loan was repaid from the cash consideration (note 4).

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**10. CONVERTIBLE NOTES**

- (a) On December 23, 2011, the Company issued 2,500,000 convertible notes that matured December 23, 2012, with a face value of \$1 per note (the "Convertible Notes") for a total of \$2,500,000. Each of the Convertible Notes was convertible to five common shares of the Company and an option to purchase an additional share for \$0.20 for a period of 21 months, or, on the maturity date if the Company had not obtained a listing on the Australian Securities Exchange ("ASX").

The Convertible Notes bore interest at 10% per annum, and were convertible on issue of a prospectus for the listing of the Company's securities on the ASX with the Australian Securities and Investments Commission ("ASIC"), or, at the election of the Company, at any time before repayment. If not converted, the note holders could demand payment on the maturity date, on change of control of the Company, or in the event of default by the Company. The Company accrued interest of \$250,000 on the Convertible Notes to December 23, 2012, at which time the Convertible Notes were repaid in full.

The Company recognized \$60,976 as the value of the conversion feature for the Convertible Notes, which was accounted for as debt discount recognized as interest cost over the 12 month term to the maturity of the notes.

- (b) On December 21, 2012, the Company issued 2.4 million convertible notes that mature June 21, 2013, with a face value of \$1 per note (the "2012 Convertible Notes") for total proceeds of \$2.4 million. The 2012 Convertible Notes and any securities issued on conversion thereof are subject to a four-month hold period expiring April 21, 2013. Each 2012 Convertible Note is convertible to five common shares of the Company.

The 2012 Convertible Notes bear interest at 12% per annum. As well, 12 million common share purchase warrants to acquire one common share at \$0.20 until June 21, 2014 were issued to the lenders. If not converted, the note holders can demand payment on the maturity date, on change of control of the Company or in the event of default by the Company.

The Company recognized \$1,594,037 as the value of the warrants issued and the conversion feature for the 2012 Convertible Notes, which was accounted for as debt discount to be recognized as interest cost over the six-month term to the maturity of the notes. At December 31, 2012, \$95,496 of the warrant value and conversion feature had been amortized to interest expense.

The net present values at March 31, 2012 and December 31, 2012 were determined as follows:

	<b>March 31, 2012</b>	<b>December 31, 2012</b>
Face value on issue	\$ 2,400,000	\$ 2,400,000
Accrued interest	79,122	7,912
Unamortized discount conversion	(120,981)	(253,768)
Unamortized discounts options	(683,715)	(1,434,136)
	<b>\$ 1,674,426</b>	<b>\$ 720,008</b>

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**10. CONVERTIBLE NOTES (Continued)**

- (c) On January 16, 2013, the Company issued an additional \$2,060,700 of convertible debentures. When combined with the previous closing (note 10 (b)), the Company will have accepted \$4,460,700 in gross proceeds for the convertible notes. The convertible debentures are convertible into common shares of the Company at a price of \$0.20 per share until July 14, 2014. Purchasers of the convertible debenture also received one detached warrant for each common share underlying the convertible debenture. Each warrant is exercisable into a common share of the Company until July 14, 2014 at a price of \$0.20. The convertible debentures and warrants above are subject to a four-month hold period expiring May 15, 2013. Insiders that participated in the offering are subject to a 24-month conversion period, and received a 24 month detached warrant. The Company will pay finder's fees associated with the additional convertible notes in the amount of \$247,650.

The net present values of the convertible notes at their issue date January 17, 2013 and March 31, 2013, respectively, were:

	<b>March 31, 2012</b>	<b>January 17, 2013</b>
Face value on issue	\$ 2,060,700	\$ 2,060,700
Accrued interest	52,169	-
Unamortized discount conversion	(236,926)	(282,047)
Unamortized finders fees	(30,179)	(52,000)
Unamortized discounts options	(1,055,642)	(1,386,920)
	<b>\$ 790,122</b>	<b>\$ 339,733</b>

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**11. SHARE CAPITAL**

(a) Authorized

Unlimited common shares without par value

(b) Issued

At March 31, 2013, 116,499,584 (December 31, 2012 - 116,499,584 and March 31, 2012, 78,369,515) common shares were issued and outstanding.

On August 17, 2012, the Company completed the first tranche of a non-brokered private placement consisting of 9,558,834 units priced at \$0.15 per unit, for gross proceeds of \$1,433,825. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of \$0.20 for the first year and \$0.25 for the second year. The Company allocated \$1,051,471 to share capital and \$382,354 to warrant reserve to reflect the values assigned to shares and warrants within the unit issuance. The Company paid finders' fees in connection with the financing of \$84,300 in cash. Other cash share issuance costs in the amount of \$26,294 were incurred by the Company related to this placement.

On August 17, 2012, the Company issued 125,000 common shares to G. Lluch valued at \$13,750. The shares were issued in connection with the supplementary mineral property and royalty agreement with G. Lluch & Sons Inc. and Agusan. The supplementary agreement amends and updates various property access, exploration and mining rights, and royalty agreements.

On September 7, 2012, the Company, pursuant to the deed of settlement, issued 2,000,000 common shares valued at \$220,000 and paid \$101,988 (AUS\$100,000) to settle a dispute against the Company and Agusan. The settlement satisfied the conditions under the sale agreement between Mining Group and the Company for the final payment by Mining Group to the Company of AUS\$1,000,000 (note 5).

On September 14, 2012, the Company completed the second tranche of a non-brokered private placement consisting of 3,930,000 units priced at \$0.15 per unit, for gross proceeds of \$589,500. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of \$0.20 for the first year and \$0.25 for the second year. The Company allocated \$589,500 to share capital and \$nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced. The Company paid finders' fees in connection with the financing of \$40,425 in cash.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**11. SHARE CAPITAL (Continued)**

(b) Issued (continued)

On November 7, 2012, the Company completed the third tranche of a non-brokered private placement consisting of 18,570,995 units priced at \$0.15 per unit, for gross proceeds of \$2,785,649. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of \$0.20 for the first year and \$0.25 for the second year; 6,161,334 of the units were not issued until December 6 while the documentation required to be filed by investors holding over 5% of the issued and outstanding was under review. The Company allocated \$2,785,649 to share capital and \$nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced. The Company issued 1,320,240 common shares as finders' fees to a single finder.

On December 14, 2012, the Company completed a non-brokered private placement consisting of 2,625,000 units priced at \$0.20 per unit, for gross proceeds of \$525,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of \$0.27. The Company allocated \$525,000 to share capital and \$nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced.

(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 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 options 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.



**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**11. SHARE CAPITAL** (continued)

(c) Stock options (continued)

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

As at March 31, 2013 and December 31, 2012, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	March 31, 2013	December 31, 2012
15-Apr-14	\$ 0.63	450,000	450,000
20-Jul-14	\$ 0.50	790,000	790,000
30-Sep-14	\$ 0.50	135,000	135,000
1-Mar-15	\$ 0.95	150,000	150,000
17-Aug-15	\$ 0.50	50,000	50,000
12-Jul-16	\$ 0.50	28,000	28,000
21-Sep-16	\$ 0.45	750,000	750,000
6-Dec-16	\$ 0.20	2,190,000	2,190,000
24-Jul-17	\$ 0.50	189,900	189,900
6-Nov-17	\$ 0.50	1,064,000	1,064,000
25-Oct-17	\$ 0.15	4,500,000	4,500,000
		10,296,900	10,296,900

The options outstanding and exercisable at December 31, 2012, have a weighted average remaining contractual life of 4.05 (2011 - 4.38) years. Stock option activity is as follows:

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, beginning of year	6,196,900	\$ 0.49	3,237,000	\$ 0.52
Granted	4,500,000	\$ 0.15	3,390,000	\$ 0.43
Expired	(400,000)	\$ 0.50	(430,000)	\$ 0.50
Exercised	-	-	(100)	\$ 0.50
Outstanding and exercisable, end of year	10,296,900	\$ 0.29	6,196,900	\$ 0.49

On October 16, 2012, the Company granted 4,500,000 fully vested incentive stock options. The exercise price of the options is \$0.15 each, exercisable until October 16, 2017. The fair value of the stock options granted was \$624,672 (\$0.15 each) as estimated at the date of the grant using the Black-Scholes option pricing model.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**11. SHARE CAPITAL (Continued)**

(c) Stock options (continued)

On December 6, 2011, the Company granted 2,190,000 fully vested incentive stock options. The exercise price of the options is \$0.20 each, exercisable until December 6, 2016. The fair value of the stock options granted was \$325,018 (\$0.15 each) as estimated at the date of the grant using the Black-Scholes option pricing model.

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.

*Share-based payments*

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with weighted average assumptions as follows:

	<b>2013</b>	<b>2012</b>
Risk free rate	n/a	1.63%
Expected life	n/a	5 years
Expected volatility	n/a	157.77%
Expected dividend yield	n/a	Nil

Total stock-based compensation recognized during the year ended December 31, 2012 with respect to options was \$624,672 (2011 - \$667,423). The options were granted to consultants.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

**11. SHARE CAPITAL (Continued)**

(c) Warrants

As at March 31, 2013 and December 31, 2012, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	March 31, 2013	December 31, 2012
August 14, 2013	\$ 1.50	2,000,000	2,000,000
September 2, 2013	\$ 0.30 <sup>(2)</sup>	4,560,667	4,560,667
September 2, 2013	\$ 0.45	259,140	259,140
August 17, 2014	\$ 0.20 <sup>(3)</sup>	9,558,834	9,558,834
September 14, 2014	\$ 0.20 <sup>(3)</sup>	3,930,000	3,930,000
October 31, 2014	\$ 0.20 <sup>(3)</sup>	2,109,661	2,109,661
November 7, 2014	\$ 0.20 <sup>(3)</sup>	10,300,000	10,300,000
December 7, 2014	\$ 0.20 <sup>(3)</sup>	6,161,334	6,161,334
December 14, 2014	\$ 0.27	2,625,000	2,625,000
June 21, 2014	\$ 0.20	12,000,000	12,000,000
September 15, 2015	\$ 1.25 <sup>(4)</sup>	2,079,846	2,079,846
October 18, 2015	\$ 1.25 <sup>(4)</sup>	2,980,188	2,980,188
December 8, 2015	\$ 1.10 <sup>(1)</sup>	11,000,000	11,000,000
		<b>69,564,670</b>	<b>69,564,670</b>

<sup>(1)</sup> On April 10, 2012, the Company extended the expiry date of 11,000,000 warrants from December 8, 2012, to December 8, 2015.

<sup>(2)</sup> On February 8, 2012, the Company reduced the exercise price from \$0.45 to \$0.30 per share on 4,560,667 warrants issued as part of the private placement on September 2, 2011.

<sup>(3)</sup> The warrants are exercisable at \$0.20 for the first year and \$0.25 for the second year.

<sup>(4)</sup> The warrants were exercisable at \$1.00 for the first two years and \$1.25 for the remaining three years.

**11. SHARE CAPITAL (Continued)**

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

(d) Warrants (continued)

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

	31-Mar-13		31-Dec-12	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	69,564,670	\$0.47	30,559,841	\$0.95
Issued	-	-	46,684,829	\$0.20
Expired	-	-	(7,680,000)	\$0.84
Modified	-	-	(4,560,667)	\$0.45
Modified	-	-	4,560,667	\$0.30
Outstanding, end of year	69,564,670	\$0.47	69,564,670	\$0.47

**12. RELATED PARTY TRANSACTIONS AND BALANCES**

During the period ended March 31, 2013 and 2012, the Company incurred management compensation as follows:

	2013	2012
Key management - consulting fees	277,020	247,020
Key management - share based payments	-	-
	277,020	247,020

Of this amount, \$180,000 (2012 - \$150,000) was expensed and \$97,020 (2012 - \$97,020) was capitalized to investment in, and expenditures on, exploration and evaluation assets.

At March 31, 2013, the Company owed \$35,440 (December 31, 2012- owed \$22,386) 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.

At December 31, 2012, the Company had an advance receivable from Agusan of \$10,307,538. On January 17, 2012, the Company sold 80% of its interests in affiliate Agusan (5 and 6). Under the terms of the agreement, the advances made by the Company to Agusan were retained. The advances to Agusan are unsecured, non-interest-bearing and have no specified terms of repayment. Pursuant to the agreement, the Company's advance to Agusan ranks equally with amounts advanced by Mining Group for exploration expenditures on the Agusan copper-gold project. The advances will be repaid first from distribution of profits on a proportional basis until each advance is repaid.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
**(Expressed in Canadian dollars, unless otherwise stated)**  
**Three Month Periods Ended March 31, 2013 and 2012**

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**12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

At December 31, 2012, the Company is committed to pay termination payments to six officers and directors in the event those individuals are terminated without cause. The payments range from one to three years of annual salary per individual. If the termination payments were triggered for all six individuals, the Company would be required to pay to those individuals in total \$1,882,438.

**13. RETIREMENT BENEFIT OBLIGATION**

The Company has a legislated obligation to provide a retirement payment to employees in the Philippines equal to 22.5 days pay for every year of credited service at attainment of a retirement age of 60. The Company completes an actuarial valuation of the present value of the obligation annually. The last actuarial valuation of the present value of the obligation was carried out at February 4, 2013, as at December 31, 2012 and for the year then ended. The present value of the obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The principal assumptions used for the purposes of the actuarial valuation were as follows:

	<b>2012</b>
Discount rate	5.64%
Expected rate of salary increase	5%
Normal retirement age	60
Projected retirement benefit	22.5 days per year of service.
Actuarial cost method	projected Unit Credit Method
Manner of benefit payment	Lump sum

**14. CAPITAL MANAGEMENT**

In October, the Company's Philippines affiliate, TMC, received the MGB's Declaration of Mining Project Feasibility enabling the Company to commence commercial mining production at the T'Boli gold-silver mine and the CIL plant. The Company has begun processing "incidental ore", which it stockpiled during exploration. Since receiving the MGB's approval and commencing production to March 31, 2013, the CIL plant has generated approximately \$650,000 from metal sales. The CIL processing plant will require additional capital expenditure to meet its designed capacity.

The Company is continuing exploration of its other properties (note 8) and is not generating sufficient cash flows from operations to cover its operating costs or fund exploration of its other properties and continues to rely on debt and issuance of shares to generate capital. The Company considers capital to consist of shareholders' equity and convertible debt.

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.

The Company's policy for managing capital has not changed from prior years.

**CADAN RESOURCES CORPORATION**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Unaudited**  
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**Three Month Periods Ended March 31, 2013 and 2012**

**15. 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.

	March 31, 2013			
	Canada	Philippines	Consolidated	
Current assets	\$ 193,217	\$ 258,223	\$ 451,440	
Deferred exploration costs	858,746	28,783,654	29,642,400	
Loan to Philco Mining	10,307,537	-	10,307,537	
Investments held for resale	281,114	-	281,114	
Investment in Philco Mining	1,119,284	-	1,119,284	
Property, plant and equipment	10,404	2,476,849	2,487,253	
<b>Total Assets</b>	<b>\$ 12,770,302</b>	<b>\$ 31,518,726</b>	<b>\$ 44,289,028</b>	
<b>Total Liabilities</b>	<b>\$ 3,084,162</b>	<b>\$ 1,901,320</b>	<b>\$ 4,985,482</b>	
	December 31, 2012			
	Canada	Philippines	Consolidated	
Current assets	\$ 1,436,948	\$ 240,739	\$ 1,677,687	
Deferred exploration costs	706,183	27,319,807	28,025,990	
Loan to Philco Mining	10,307,538	-	10,307,538	
Investments held for resale	557,805	-	557,805	
Investment in Philco Mining	1,198,185	-	1,198,185	
Property, plant and equipment	11,760	2,533,548	2,545,308	
<b>Total Assets</b>	<b>\$ 14,218,419</b>	<b>\$ 30,094,094</b>	<b>\$ 44,312,513</b>	
<b>Total Liabilities</b>	<b>\$ 1,782,054</b>	<b>\$ 1,426,674</b>	<b>\$ 3,208,728</b>	

## **CADAN RESOURCES CORPORATION**

### **Notes to the Condensed Consolidated Interim Financial Statements**

#### **Unaudited**

**(Expressed in Canadian dollars, unless otherwise stated)**

**Three Month Periods Ended March 31, 2013 and 2012**

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#### **16. SUBSEQUENT EVENTS**

On May 2, 2013 the Company entered into an agreement with Mighty River International Ltd. of Singapore, whereby Mighty River is providing the Company with a US\$5 million loan facility. The facility may be drawn down in increments of USD\$1 million, with an initial draw of US\$1 million having been made at the time of signing. Amounts drawn bear interest at a rate of 8% per annum and are repayable in 12 months from the draw date. The company has six months to make further draws on the loan facility, with the availability of each future draw being subject to certain conditions being met. Cadan has agreed to provide the lender with security over its assets. In connection with the loan agreement, Cadan, Mighty River, and Cadan's Philippine affiliate, Tribal Mining Corporation, entered into royalty agreements pursuant to which Mighty River is entitled to receive a 1% production royalty on the T'Boli Mine located in the Philippines for each USD\$1 mill advanced to Cadan.