



# **ANNUAL REPORT**

YEAR ENDED DECEMBER 31, 2011

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### Forward-Looking Statements

This annual report contains or refers to forward-looking information under Canadian securities legislation and applicable U.S. securities laws, including statements regarding the estimation of mineral resources, exploration results, potential mineralization, exploration and mine development plans, timing of the commencement of operations and is based on current expectations that involve a number of business risks and uncertainties. Forward-looking statements are subject to significant risks and uncertainties, and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to convert estimated mineral resources to reserves, capital and operating costs varying significantly from estimates, the preliminary nature of metallurgical test results, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, political risks, uncertainties relating to the availability and costs of financing needed in the future, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and the other risks involved in the mineral exploration and development industry, as well as those factors discussed in the section entitled "Risks of the Business" in the Company's most recent Annual Information Form and other regulatory filings which are posted on SEDAR at [www.sedar.com](http://www.sedar.com). These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances other than as required by applicable securities law.

### Differences in Reporting of Mineral Resource Estimates

This annual report was prepared in accordance with Canadian standards for reporting of mineral resource estimates, which differ in some respects from United States standards. In particular, and without limiting the generality of the foregoing, the terms "inferred mineral resources," "indicated mineral resources," "measured mineral resources" and "mineral resources" used or referenced in this annual report are Canadian mineral disclosure terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves (the "CIM Standards"). The CIM Standards differ significantly from standards in the United States. While the terms "mineral resource," "measured mineral resources," "indicated mineral resources," and "inferred mineral resources" are recognized and required by Canadian regulations, they are not defined terms under standards in the United States. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Readers are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be converted into mineral reserves. Readers are also cautioned not to assume that all or any part of an inferred mineral resource exists, or is economically or legally mineable. Disclosure of "contained ounces" in a mineral resource is permitted disclosure under Canadian regulations; however, United States companies are only permitted to report mineralization that does not constitute "reserves" by standards in the United States as in place tonnage and grade without reference to unit measures. Accordingly, information regarding mineral resources contained or referenced in this annual report containing descriptions of our mineral deposits may not be comparable to similar information made public by United States companies.



***"2011 was a pivotal year for Continental Gold as we announced our maiden mineral resource estimate for the Buriticá project and began our transition into a development-stage mining company."***

*- Ari Sussman, CEO*

## MESSAGE TO SHAREHOLDERS

April 30, 2012

Dear **VALUED SHAREHOLDERS**,

Over the past year, we achieved significant growth at Continental Gold as we expanded our initial exploration initiatives and incorporated preliminary mine development concepts into our overall strategy. The Company began and ended the year in a strong financial position and was able to exceed its goals in most categories.

With our flagship Buriticá project, the most advanced in our portfolio of wholly-owned high-grade gold projects, our vision is to become the operator of the first modern-day world-class gold mine in Colombia by the year 2015. Our strategy of building a portfolio of high-grade projects provides us with a robust internal growth profile as we set out on the path to become an intermediate-scale gold producer. Notably, our projects, if proven to be economic, would require only relatively modest amounts of capital to build and operate. Such projects are becoming increasingly attractive as large-scale high-capital projects are witnessing unparalleled cost inflation industry-wide.

The Buriticá gold project is our priority and the advancements made in 2011 would not have been possible without the dedication and enthusiasm of our team. We crossed the century mark by completing over 100,000 metres of diamond drilling at year-end. With the initial phase of metallurgical work, we established that the Buriticá project has coarse free-gold and, consequently, very high recovery rates for the precious and base metals through the utilization of conventional off-the-shelf processing equipment. In September, we announced our maiden mineral resource estimate, prepared in accordance with NI 43-101, confirming that the Buriticá project is a high-grade multimillion-ounce resource. We fully expect the growth in ounces to continue as we update the resource estimate in the second half of 2012 and beyond.

Buriticá Project - Maiden Resource Estimate*							
Resource		Grades			Metal		
Category	Tonnes	Au (g/t)	Ag (g/t)	Zn (%)	Au (oz)	Ag (oz)	Zn (lb)
Measured	40,000	55.1	138	2.4	70,000	200,000	2,100,000
Indicated	1,070,000	16.4	39	0.7	560,000	1,300,000	16,600,000
<b>Total M&amp;I</b>	<b>1,110,000</b>	<b>17.8</b>	<b>42</b>	<b>0.8</b>	<b>630,000</b>	<b>1,500,000</b>	<b>18,700,000</b>
Inferred	6,900,000	11.4	43	0.6	2,500,000	9,500,000	88,000,000

\*As at June 30, 2011. 3 g/t gold cut-off grade, 1 metre minimum width in vein domains. There have been no assumptions made as to metal prices or recoveries in this resource estimate. For further details, please refer to the technical report entitled "Mineral Resource Estimate of the Buriticá Gold Project, Colombia" dated October 24, 2011, as amended November 23, 2011, available on SEDAR at [www.sedar.com](http://www.sedar.com).

In October, assay results from deep drilling were announced, confirming that the veins within the Buriticá system continue to vertical depths of over 1,000 metres and well below the envelopes of our resource estimate, an important aspect of our geological model.

Building on our successes in 2011, we increased our 2012 budget to \$58 million - the most aggressive in the Company's history. We will drill 60,000 metres at the Buriticá project in 2012, the majority of which will focus on the expansion of existing resources and first-pass testing of exciting new targets in close proximity to our existing resource. Additionally, at Buriticá, we will begin construction of a one-kilometre production-scale adit into the side of the hill from the valley. Although this adit will eventually serve as the main entry point for commercial production, the immediate benefit will be the access provided for underground drilling to grow the resource base of the project at depth. In addition to the updated mineral resource estimate, we expect to produce the first ever Preliminary Economic Assessment for the Buriticá project in the second half of 2012.

The Berlin and Dominical projects are advancing on schedule for planned drilling in 2013. Both projects are high-grade targets, with the more advanced being Berlin, which produced almost a half-million ounces of gold in the 1930s and 1940s, at a head grade of 16 grams per tonne. We are truly excited to begin exploring this opportunity as the historical resource remains open at depth and along strike.

The key to unlocking all of this value will undoubtedly lie in the foresight of our exceptionally talented leadership and technical teams, combined with focused execution and good timing. Focused execution has become a core competency of Continental Gold which, consequently, has launched us on our exciting growth path. Counterbalancing this focus on growth is our commitment to the communities where we operate, and to environmental sustainability and health and safety. We commend all of our employees for their tireless commitment in this regard.

On behalf of the Board of Directors, the management team and employees of Continental Gold, we would like to take this opportunity to thank all of our shareholders for their continued support. We would also like to extend our sincere appreciation to the directors, management team, employees and other stakeholders for their efforts and accomplishments. In today's challenging world of mining where sizeable high-grade gold projects are increasingly rare, Continental Gold stands above most peers with Buriticá as a high-grade flagship project, and Berlin and Dominical as high-grade exploration targets. 2012 is another pivotal year as we work to unlock value from continued exploration and commence early development at Buriticá.

With kind regards,



Robert Allen  
Chairman



Ari Sussman  
Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the activities, financial condition and results of the operations of Continental Gold Limited (the company resulting from the amalgamation of Cronus Resources Ltd. and Continental Gold Limited) (the "Company" or "CGL") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2011. This discussion, dated March 7, 2012, should be read in conjunction with the audited financial statements of the Company for the year ending December 31, 2011, together with the notes thereto. Commencing January 1, 2011, the Company began reporting under International Financial Reporting Standards ("IFRS"). The audited financial statements for the year ending December 31, 2011 have been prepared in accordance with IFRS with comparative information for 2010 restated under IFRS (refer to Note 28 of the audited financial statements for the year ending December 31, 2011 for reconciliations from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS). All dollar amounts in this MD&A are in United States ("U.S.") dollars, unless stated otherwise. References to C\$ and COP are to Canadian dollars and Colombian pesos, respectively. Information contained herein is presented as of March 7, 2012, unless otherwise indicated.

Further information about the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking statements" within the meaning of applicable Canadian securities legislation and applicable U.S. securities laws. Except for statements of historical fact relating to the Company (as hereinafter defined), information contained herein constitutes forward-looking statements, including, but not limited to, statements with respect to the potential of the Company's properties; the future price of gold and other mineral commodities; success of exploration activities; cost and timing of future exploration and development; conclusion of economic evaluations; requirements for additional capital; other statements relating to the financial and business prospects of the Company; and other information as to the Company's strategy, plans or future financial or operating performance.

Generally, forward-looking statements are characterized by the use of forward-looking terminology such as "plans", "expects" for "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "is projected", "anticipates" or "does not anticipate", "believes", "targets", or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results "may", "could", "should", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management considered reasonable at the date the statements are made in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that it believes to be relevant and reasonable in the circumstances at the date that such statements are made. Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: the actual

results of exploration activities; the inherent risks involved in the exploration and development of mineral properties; changes in project parameters as plans continue to be refined; delays in obtaining government approvals; the uncertainties of project cost overruns or unanticipated costs and expenses; uncertainties inherent in conducting operations in a foreign country; title risks related to the ownership of the Company's projects and the related surface rights and to the boundaries of the Company's projects; the Company's limited operating history; uncertainties related to the availability and costs of financing needed in the future; fluctuations in mineral prices; uninsurable risks related to exploration, development and production; reliance on a preliminary economic assessment to determine the potential economic viability of the mineral resources comprising the Buriticá project; uncertainties of construction and operating cost overruns; the risk that the conclusion of pre-production studies may not be accurate; uncertainties of construction and operating cost overruns; unexpected adverse changes that may result in failure to comply with environmental and other regulatory requirements; differing interpretations of tax regimes in foreign jurisdictions; the loss of Canadian tax resident status; uncertainties inherent in competition with other exploration companies; non-governmental organization intervention and the creation of adverse sentiment among the inhabitants of areas of mineral development; uncertainties related to conflicts of interest of directors and officers of the Company; dependence on key management employees; reliance on outside contractors in certain mining operations; labour and employment matters; the presence of artisanal miners; the reliability of resource estimates; the ability to fund operations through foreign subsidiaries; the residency of directors, officers and others; uncertainties related to holding minority interests in other companies; foreign currency fluctuations; unreliable historical data for projects; reliance on adequate infrastructure for mining activities; health and safety risks; compliance with government regulation; the market price of shares of the Company; the payment of future dividends; future sales of shares of the Company; accounting policies and internal controls; and Bermuda legal matters. See "Risks and Uncertainties" for a more detailed list of risk factors.

Although management of the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and the Company's plans and objectives and may not be appropriate for other purposes. The Company does not undertake to update any forward-looking statements contained herein or incorporated by reference herein, except in accordance with applicable securities laws.

### **Differences in Reporting of Resource Estimates**

This MD&A was prepared in accordance with Canadian standards which differ in some respects from United States standards. In particular, and without limiting the generality of the foregoing, the terms "inferred mineral resources," "indicated mineral resources," "measured mineral resources" and "mineral resources" used or referenced in this MD&A are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves (the "CIM Standards"). The CIM Standards differ significantly from standards in the United States. While the terms "mineral resource,"

"measured mineral resources," "indicated mineral resources," and "inferred mineral resources" are recognized and required by Canadian regulations, they are not defined terms under standards in the United States. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian securities laws, estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. Readers are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be converted into mineral reserves. Readers are also cautioned not to assume that all or any part of an inferred mineral resource exists, or is economically or legally mineable. Disclosure of "contained ounces" in a mineral resource is permitted disclosure under Canadian regulations; however, United States companies are only permitted to report mineralization that does not constitute "reserves" by standards in the United States as in place tonnage and grade without reference to unit measures. Accordingly, information regarding mineral resources contained or referenced in this MD&A containing descriptions of our mineral deposits may not be comparable to similar information made public by United States companies.

## EXECUTIVE SUMMARY

Continental Gold Limited (TSX: CNL) is an advanced-stage exploration and development company with seven gold projects covering over 135,282 hectares in highly-prospective areas with known historical gold production in Colombia.

Formed in April 2007, the Company is committed to increase its value through the exploration and development of precious metal deposits. The Company's international management team has a successful track record of discovering and developing bulk mining targets and multi-million ounce gold deposits while its technical team boasts more than 40 years of mining and exploration experience in Colombia. Their in-depth knowledge of Colombian mineral properties has guided the Company to acquire properties with substantial exploration and development potential. In addition to its extensive portfolio, the Company also has a right of first refusal, which currently expires September 7, 2012, on approximately four million hectares of potential precious or base metal concessions owned by a company controlled by the Chairman of the Company ("the Chairman") and engaged in the exploration, development, and mining of metal and industrial mineral deposits in Colombia.

The focus of the Company during 2011 was to advance the exploration and development program at its flagship high-grade gold project, Buriticá, located in Antioquia, Colombia.

## 2011 Highlights

- Advancement of the exploration program at the Buriticá project:
  - Announced a maiden NI 43-101 compliant gold, silver and zinc mineral resource estimate for the Yaragua and Veta Sur vein systems of 630,000 ounces of gold (average grade of 17.8 g/t), 1,500,000 ounces of silver (average grade of 42 g/t) and 18,700,000 pounds of zinc (average grade of 0.8%) in the measured and indicated category and 2,500,000 ounces of gold (average grade of 11.4 g/t), 9,500,000 ounces of silver (average grade of 43 g/t) and 88,000,000 pounds of zinc (average grade of 0.6%) in the inferred category. Please refer to the Company's NI 43-101 compliant technical report entitled "Mineral Resource Estimate of the Buriticá Gold Project, Colombia", dated October 24, 2011, as amended (the "Technical

Report”), available on the Company’s website at [www.continentalgold.com](http://www.continentalgold.com) and under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

- Metallurgical test results conducted indicate that composite samples studied are amenable to gold recovery by (1) gravity concentration followed by cyanidation on the gravity tails or (2) gravity concentration followed by flotation on the gravity tails or (3) selective flotation of lead/gold/silver followed by zinc flotation on previously unprocessed material. Selective rougher flotation on previously unprocessed samples resulted in the production of a high-grade Pb-Au-Ag concentrate and a Zn concentrate with total gold and silver recoveries of 97.04 percent and 95.65 percent, respectively. Based on the preliminary metallurgical results achieved to date, selective rougher flotation is the ideal process for Buriticá samples based on the high gold and silver recoveries and the low mass pull of material.
- Completed approximately 56,000 metres of diamond drilling during 2011 for an overall project life total of approximately 100,000 metres to the end of 2011. Drilling has confirmed and expanded the Yaragua and Veta Sur zones.
- Expanded strike lengths and vertical extents of the Yaragua and Veta Sur zones to 600 metres x 600 metres and 550 metres x 1,180 metres, both of which are still open laterally and at depth. BUSY210 and BUSY221 were drilled deep into the Veta Sur system and demonstrated high grade gold-silver mineralization over vertical extents of up to 1,180 metres, and to more than 600 metres below the maiden NI 43-101 compliant resource model.
- Drill results in the Veta Sur system included: BUSY137 which intersected 10.23 metres of 44.76 g/t gold and 23.7 g/t silver, BUSY118 which intersected 10.0 metres of 28.26 g/t gold and 364.6 g/t silver, BUSY163 which intersected 18.1 metres of 24.89 g/t gold and 63 g/t silver, BUSY167 which intersected 25.45 metres of 12.02 g/t gold and 57.4 g/t silver, BUSY180 which intersected 2.1 metres of 21.31 g/t gold and 31.1 g/t silver, BUSY193 which intersected 30 metres of 20.0 g/t gold and 33 g/t silver, BUSY221 which intersected 10.2 metres of 83.8 g/t gold and 285 g/t silver and BUSY210 which intersected 4.1m of 25.1 g/t gold and 40 g/t silver and 1.2% zinc.
- Drill results in the Yaragua system included BUSY178 which intersected 6.6 metres of 6.01 g/t gold and 35.2 g/t silver, BUSY182 which intersected 4.5 metres of 9.8 g/t gold and 7.4 g/t silver, BUSY189 which intersected 8.1 metres of 137.5 g/t gold and 24 g/t silver, including 1.4 metres of 368.6 g/t gold and 31 g/t silver and BUSY213 which intersected 3.0 metres of 162.7 g/t gold and 41 g/t silver. Environmental baseline program, hydrological and geo-mechanical testing are underway.
- Transferred its Arenosa and Zaragoza properties to Minerales OTU S.A.S. (“OTU”), a private Colombian company controlled by a company controlled by the Chairman, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU) with an estimated fair value of \$2.5 million and resulting in a loss of \$4.1 million recognized for the transfer.
- Acquired from the Chairman, (i) title to mineral concession contracts and rights to mineral applications adjacent to the Buriticá project and (ii) title to concession contracts adjacent to the Dominical project for total consideration of \$6.4 million, including \$2.0 million cash and 495,106 common shares of the Company.

## SUMMARIZED FINANCIAL RESULTS

<b>As at or Year ended</b> In thousands of U.S. dollars	<b>December 31 2011</b>	December 31 2010	January 1 2010
	\$	\$	\$
<b>Financial Position</b>			
Cash	<b>83,404</b>	97,208	1,604
Exploration and development assets	<b>83,521</b>	54,809	44,673
Total assets	<b>177,588</b>	159,136	48,837
Shareholders' equity	<b>155,804</b>	52,484	31,216
<b>Operating Results</b>			
Net income (loss)	<b>18,204</b>	(119,061)	
Adjusted net loss *	<b>(15,795)</b>	(10,692)	
<b>Cash Flow</b>			
Acquisition of and investment in exploration and evaluation assets, net of gold sales	<b>25,992</b>	11,511	
Cash flows from financing activities	<b>21,273</b>	110,626	
Net cash (out) inflow	<b>(12,527)</b>	93,862	

\* Adjusted net loss is a non-GAAP measure and represents net income (loss) before gain on Canadian dollar-denominated warrants and loss on reverse acquisition.

## DESCRIPTION OF BUSINESS

The Company is an advanced-stage exploration and development entity engaged in the acquisition, exploration, evaluation and development of principally gold resource properties in Colombia. The Company currently holds the rights to explore and develop seven properties in Colombia totaling approximately 102,264 hectares and has pending concession applications totaling approximately 33,018 hectares. There is no guarantee that the Company will be granted the pending concession applications. Currently, the Company's primary focus is on its Buriticá project.

The Company is governed by the laws of Bermuda and is a reporting issuer in Canada under applicable securities legislation of Ontario, Alberta and British Columbia. It carries on its operations through a branch office in Medellín, Colombia. The Company's issued and outstanding common shares, as well as share purchase warrants issued in a financing that closed on September 16, 2010, are listed on the TSX under the symbols "CNL" and "CNL-W", respectively.

The Company has no operating revenues and as such its ability to ensure continuing operations is dependent upon its discovery of economically recoverable reserves, confirmation of its interest in the underlying mineral claims, and its ability to obtain necessary financing to complete exploration activities, development and future profitable production.

## 2010 Amalgamation

On March 30, 2010, the Company, previously a Bermuda based, privately owned company, and Cronus, a TSX Venture Exchange ("TSX-V") listed company, completed an amalgamation with the Company being the resulting issuer. Each shareholder of the original Continental Gold Limited and Cronus received one common share of the Company for 2.6973 common shares of the original Continental Gold Limited and 2.35712 common shares of Cronus, respectively. The outstanding share purchase warrants and stock options of the original Continental Gold Limited and Cronus were converted into share purchase

warrants and stock options of the Company by applying the same conversion ratios. The Company's common shares began trading on the TSX on April 19, 2010.

## EXPLORATION SUMMARY

Exploration expenditures, net of recoveries, are summarized as follows:

<b>Year ended December 31</b>	<b>2011</b>	<b>2010</b>
In thousands of U.S. dollars		
	\$	\$
Buriticá	<b>27,928</b>	12,477
Dominical	<b>543</b>	103
Berlin	<b>390</b>	1,270
Zaragoza <sup>(1)</sup>	<b>318</b>	61
Santander	<b>58</b>	102
Arenosa <sup>(1)</sup>	<b>9</b>	160
Anza	<b>6</b>	39
Dojura	<b>(107)</b>	(7)
Lunareja	<b>5</b>	-
	<b>29,150</b>	14,205

(1) On October 27, 2011, the Company transferred the Arenosa and Zaragoza properties to Otu in exchange for a 25 percent equity interest in Otu (see "Exploration Summary - Arenosa Project" and "Exploration Summary - Zaragoza Project").

### Buriticá Project

The Buriticá project encompasses an aggregate area of 28,903 hectares and is located about 75 kilometres northwest of Medellín in the Antioquia Department of north-western Colombia. The project area is comprised of 23 registered concessions covering 10,379 hectares and 18 pending registration concessions totaling 18,524 hectares. As in the case of all the Company's properties, concession applications in process give the Company priority on the properties in question during the application process. The Buriticá project includes the Yaragua Mine that had previously been under small-scale production by the Company and is now also utilized for underground exploration development and a bulk sample testing operation.

Drilling activities continued throughout 2011. The Company completed approximately 56,196 metres of diamond drilling in 144 holes in 2011. Definition drilling on a 25 to 50-metre grid continued in the Yaragua area and on the Veta Sur vein package, and step-out drilling continued in both areas. Areas defined by soil anomalies to the north and south of currently known mineralization were also drilled in a reconnaissance fashion.

Drilling continues with ten drill rigs at the project, including two larger surface drill rigs capable of testing the system in excess of 900-metre depth, and 56,196 metres were completed in 2011 for an overall project total of over 100,000 metres. Drilling is scheduled to continue into fiscal 2012 at a pace of approximately 5,000 metres per month.

### Pre-development

On September 15, 2011, the Company announced a maiden NI 43-101 compliant gold, silver and zinc mineral resource estimate for the Yaragua and Veta Sur vein systems. The resource estimate is based on 54,200 metres of drilling and 1,600 metres of underground sampling (as at June 30, 2011).

Drill results from the 2011 drill campaign and the Company's NI 43-101 compliant maiden resource estimate were disclosed in various Company news releases and the Technical Report, which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Many of the pre-development activities at Buriticá continued throughout 2011. The first stage of the hydrological study continued. Bid packages for the construction of the production tunnel that will be built at the bottom of the Higabra Valley were received and a contractor was selected. Construction will begin once environmental permits are received which is expected in the second half of fiscal 2012.

### *2011 Expenditures*

During the three months and year ended December 31, 2011, the Company incurred \$10.5 million and \$33.9 million of deferred exploration and development costs, respectively (2010 - \$8.2 million and \$18.6 million, respectively), including \$0.9 million and \$4.3 million of capitalized share-based payments, respectively (2010 - \$1.1 million and \$2.3 million, respectively). Gold sales resulting from exploration work and drifting in ore at the Buriticá project amounted to \$2.1 million and \$6.0 million for the three months and year ended December 31, 2011, respectively (2010 - \$1.0 million and \$6.1 million, respectively) and are treated as a capital credit as they support ongoing exploration of the Buriticá project and, accordingly, are not included as a revenue item in the Company's statement of operations and comprehensive income (loss). As a result, net project expenditures for the three months and year ended December 31, 2011 totaled \$8.4 million and \$27.9 million, respectively (2010 - \$7.2 million and \$12.5 million, respectively).

In addition to exploration expenditures incurred during the year, the Company also completed a land acquisition transaction in May 2011 that included mineral concession contracts and rights to mineral applications adjacent to the Buriticá project from the Chairman, of which \$4.7 million of the purchase cost was attributed and allocated to Buriticá.

During October 2011, the Company acquired, for a nominal amount, additional licenses for properties adjacent to the Buriticá project from a company controlled by the Chairman and reimbursed the related party \$0.1 million for prepaid license fees.

### **Berlin Project**

The Berlin project covers an aggregate area of 25,044 hectares. The project is comprised of eight registered concessions totaling 18,869 hectares, four pending registration concessions totaling 5,659 hectares and four concession applications totaling 516 hectares. The project area is located 90 kilometres north of Medellín in the Antioquia Department.

No work was performed at the Berlin project during 2011 but the Company hopes to be able to initiate a diamond drilling campaign in fiscal 2013.

For the three months and year ended December 31, 2011, activity for the Berlin project amounted to \$0.1 and \$0.4 million, respectively, compared to \$0.2 million and \$1.3 million for the same periods in 2010, the majority of which related to land payments.

### **Arenosa Project**

On October 27, 2011, the Company transferred its Arenosa and Zaragoza properties to OTU, a private Colombian company controlled by a company controlled by the Chairman, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU). Prior to the transfer, OTU held mineral

properties in the vicinity of the Company's Arenosa and Zaragoza properties. The Company, along with the related party, intends to market the properties with the intent of divesting all or a portion of its equity interest in OTU.

The Arenosa project covered an aggregate area of 20,605 hectares. The project consisted of seven registered concessions totaling 8,141 hectares, three pending registration concessions totaling 8,456 hectares and seven concession applications totaling 4,008 hectares. The property is located 22 kilometres from the Town of Remedios in the Antioquia Department. The topography is characterized by low, rolling hills and access is good via a series of secondary dirt roads.

On April 23, 2011, the five-year mining agreement with an arm's length party was cancelled.

The Company has classified its interest in OTU as investment in associate with \$0.8 million of book value relating to the Arenosa property being transferred from exploration and evaluation assets and, along with the Zaragoza property, recorded a loss of \$4.1 million on the transfer.

### **Dominical Project**

The Dominical project encompasses an aggregate area of 24,327 hectares and is located in southern Colombia in the Cauca Department. The project area is comprised of four registered concessions totaling 5,590 hectares, three pending registration concessions totaling 3,426 hectares and 9 concession applications covering 15,311 hectares.

Prior to February 5, 2010, the Dominical project was subject to an option agreement, at which time the Company was notified that the option holder would no longer be carrying out exploration activity on the Dominical project and resulting in the property being reverted 100% back to the Company. A review of the data provided by the option holder led the Company to believe that there is significant potential on the property for discoveries of gold in vein and porphyry environments. The veins are developed along 400 to 1,500 metres of strike length and are hosted by Tertiary clastic sedimentary rocks.

Exploration activities, including surface mapping and sampling, continued on the property during 2011. Exploration focused on the La Playa vein zone where a 100 to 300-metre wide structural corridor, containing multiple intermediate sulfidation quartz and quartz-carbonate veins, has been outlined along a 1.8 kilometre trend. The polymetallic veins are characterized by an Au-Ag-Zn-Pb-Cu metal association. Surface exploration to define additional vein and porphyry-style targets was carried out in 2011.

In addition to exploration expenditures, the Company also completed a land acquisition transaction during the second quarter including concession contracts adjacent to the Dominical project from the Chairman, of which \$1.5 million of the purchase cost was attributed and allocated to the Dominical project.

### **Santander Project**

The Santander project covers an aggregate area of 5,979 hectares. The project is comprised of four registered concessions totaling 4,466 hectares and one pending registration concession totaling 1,513 hectares. It is located 35 kilometres northeast of Bucaramanga in the California Mining District in northeastern Colombia.

No exploration activities were undertaken on the property during 2011; however, several companies exploring in the area have expressed interest in acquiring the concessions. Concession GLU-133 is directly on trend to the southwest from the gold deposits owned by two prominent mining companies. Concession BA3-093 is immediately south and adjacent to the historical Vetas gold district, which is currently being explored by two Canadian mining companies.

### **Zaragoza Project**

On October 27, 2011, the Company transferred its Arenosa and Zaragoza properties to OTU in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU). Prior to the transfer, OTU held mineral properties in the vicinity of the Company's Arenosa and Zaragoza properties. The Company, along with the related party, intends to market the properties with the intent of divesting a portion of or all of its equity interest in OTU.

The Zaragoza project covered an aggregate area of 41,831 hectares. The project consisted of 35 registered concessions totaling 24,805 hectares and seven pending registration concessions totaling 7,233 hectares and 9 concession applications totaling 9,793 hectares. The project is located in the eastern part of Antioquia Department, 160 kilometres northeast of Medellín.

The Company has classified its interest in OTU as investment in associate with \$5.8 million of book value relating to the Zaragoza property being transferred from exploration and evaluation assets and, along with the Arenosa property, recorded a loss of \$4.1 million on the transfer.

### **Anza Project**

The Anza project is located 50 kilometres west of Medellín in the Antioquia Department and consists of two registered concessions covering 6,309 hectares.

### *Option Agreement*

A portion of this project is subject to an option agreement, along with five other parties ("Optionors"), with a third party option holder, pursuant to which the option holder is obligated to incur certain exploration expenditures on the properties. The Company is entitled to receive 25% of all consideration flowing to the Optionors from the option holder. Pursuant to the option agreement, the Optionors are entitled to receive future option payments of \$1,000,000 and 1,000,000 common shares of the option holder (of which the Company's share is \$250,000 and 250,000 common shares) on June 29, 2012 and \$2,000,000 and 2,000,000 common shares of the option holder (of which the Company's share is \$500,000 and 500,000 common shares) on June 29, 2013. The option holder is also responsible for incurring a minimum of \$4,000,000 of exploration expenditures on the properties pursuant to the option agreement. The Optionors will maintain a 2% net smelter royalty in the properties. Additionally, the option holder will have the option to purchase half of the net smelter royalty from the Optionors at a cost of \$1,000,000.

In 2011, the Company received option payments of \$0.1 million (2010 - \$0.1 million) in cash and 125,000 common shares of the option holder, valued at \$0.1 million (2010 - 75,000 common shares, valued at \$30,000) in accordance with the option agreement. Option payments received in 2011 exceeded book values for the project at that time and as a result \$0.1 million was recognized in other income in the statement of operations and

comprehensive income (loss) during the year. Expenditures incurred subsequent to the receipt of the option payment continue to be capitalized.

### *Acquisition and Sale Agreement*

The Company also signed a definitive acquisition and sale agreement dated May 21, 2010 on certain other Anza concessions. Pursuant to the sale of its legal and beneficial interest in these concessions to the purchaser, the Company received 1,000,000 common shares of the purchaser and 500,000 share purchase warrants giving the Company the right to purchase 500,000 common shares of the purchaser at a price of C\$0.75 per share until June 29, 2012.

### **Dojura Project**

The Dojura project covers an aggregate area of 44,104 hectares. The project is comprised of three registered concessions totaling 12,725 hectares, six pending registration concessions totaling 14,187 hectares and four concession applications totaling 17,192 hectares, and is subject to an option agreement dated October 4, 2006 between a third party option holder and a company controlled by the Chairman. The option agreement was assigned to the Company by the related party by way of an assignment agreement dated June 4, 2008.

The Company received payments of \$100,000, \$150,000 and \$250,000 on January 15 of 2010, 2011 and 2012, respectively, from the option holder with regard to the Dojura project. Work was halted on the Dojura project on a partial force majeure basis until such time as security conditions in the area improve. However, Continental Gold has initiated discussions with AngloGold Ashanti Limited ("AngloGold") to determine the suitability for work thereon to resume. Until that time AngloGold has paid and shall continue to pay any payments required to keep the Dojura project in good standing.

During 2011, the Company received a summary of the results of an airborne geophysical survey performed by AngloGold over a portion of the property. The results are consistent with the long-standing recommendation that the property has potential for large-scale copper-gold porphyry style mineralization.

### **Lunareja Project**

The Lunareja project is comprised of three registered concessions totaling 616 hectares. Two of the registered concessions are within the boundaries of a national park located approximately 65 kilometres west of Medellín.

In 2010, due to changes in the mining code that would prohibit mining operations in the Company's mining concessions for this project, the Company wrote down the carrying value of \$1.2 million for the Lunareja project to zero. Subsequent expenditures are expensed.

In the longer term (within five years), mining activities may be permitted in protected zone areas. However, administrative procedures for such activities have not yet been regulated. Regardless, it is uncertain that permission for mining activities in these areas will be granted.

## FINANCIAL RESULTS

The following is a summary of the Company's financial operating highlights for the years ended December 31, 2011 and 2010:

<b>Year Ended December 31</b>	<b>2011</b>	2010
In thousands of U.S. dollars, except per share amounts	\$	\$
Net income (loss)	<b>18,204</b>	(119,061)
Income (loss) per share, basic	<b>0.17</b>	(1.66)
Income (loss) per share, fully diluted	<b>0.16</b>	(1.66)
Adjusted net loss *	<b>(15,795)</b>	(10,692)
Adjusted net loss per share, basic and fully diluted	<b>(0.15)</b>	(0.15)

\* Adjusted net loss is a non-GAAP measure and represents net income (loss) before gain on Canadian dollar-denominated warrants and loss on reverse acquisition.

The Company's net income (loss) for the three months and year ended December 31, 2011 amounted to a \$3.8 million net loss (\$0.04 per share) and \$18.2 million net income (\$0.17 per share), respectively, compared with a net loss of \$41.6 million (\$0.46 per share) and a net loss of \$119.1 million (\$1.66 per share) for the same periods in 2010, and includes the following items:

- Gain (loss) on Canadian dollar-denominated warrants for the three months and year ended December 31, 2011 was \$0.5 million loss and 33.9 million gain, respectively (2010 – loss of \$40.2 million and \$98.2 million, respectively). The changes are attributable to the revaluation of the warrants from previous values recorded. The valuation of warrants is subjective and can impact net income (loss) significantly.
- Loss on reverse acquisition of \$10.2 million, recorded on March 30, 2010, representing the fair value of the consideration issued by the Company of \$10.0 million and the net liability position of Cronus on the date of the transaction of \$0.2 million.

The Company's adjusted net loss (a non-GAAP measure, representing net income (loss) before gain on Canadian dollar-denominated warrants and loss on reverse acquisition) for the three months and year ended December 31, 2011 amounted to \$3.4 million (\$0.03 per share) and \$15.8 million (\$0.15 per share), respectively, compared with an adjusted net loss of \$1.4 million (\$0.02 per share) and \$10.7 million (\$0.15 per share) for the same periods in 2010. The change for the quarter and year compared to the same periods in 2010 were primarily from the following:

- Corporate administration for the three months ended December 31, 2011 was \$2.6 million and \$12.1 million, respectively (2010 – \$1.9 million and \$10.8 million, respectively), including share-based payments. The increase in costs from 2010 is primarily related to an increase in share-based payment costs and a one-time equity tax in Colombia net of a decrease in share issue costs expensed.
- Compensation costs related to share-based payments during the three months and year ended December 31, 2011 was \$2.0 million and \$10.2 million, respectively (2010 – \$2.1 million and \$6.8 million, respectively), of which \$1.1 million and \$5.9 million (2010 – \$1.0 million and \$4.5 million) were expensed in the respective periods and \$0.9 million and \$4.3 million (2010 – \$1.1 million and \$2.3 million) were capitalized to exploration and evaluation assets in the respective periods.

- Changes related to share-based payments relate to the issuance of 150,000 options and 2,387,500 options, respectively, during the three months and year ended December 31, 2011 with average grant date fair values of \$5.22 per share and \$5.20 per share, respectively, compared to 250,000 options and 5,214,725 options granted in the three months and year ended December 31, 2010 with average grant date fair values of \$4.87 per share and \$1.42 per share, respectively. The valuation of share-based payments is subjective and can impact net income (loss) significantly.
- Included in corporate administration for 2011 is \$1.1 million for a new equity tax imposed by the Colombian Congress. The one-time equity tax is based on the net equity in Colombia as at January 1, 2011 and is payable over a four-year period.
- Also included in corporate administration for 2010 is \$2.3 million for expensed share issue costs attributable to the Canadian dollar-denominated warrants issued in 2010.
- Write-down of assets was \$0.2 million in 2011 (2010 - \$1.4 million). The 2010 amount includes a write-down of \$1.2 million related to the Lunareja project. In addition, a loss of \$4.1 million in 2011 (2010 - loss of \$1.0 million) was recorded. The 2011 amount relates to the disposal of the Arenosa and Zaragoza properties in exchange of a 25% equity interest in an associate. The 2010 amount relates to the sale of a portion of the Anza and Zaragoza properties.
- Foreign exchange gain (loss) for the three months and year ended December 31, 2011, was \$1.8 million gain and \$1.2 million loss, respectively, compared to a gain of \$2.2 million and \$1.9 million for the same respective periods in 2010. The change is primarily the result of the fluctuation of the Canadian/US dollar exchange rate on Canadian cash balances held, which were greater throughout 2011.
- Unrealized loss on marketable securities during the three months and year ended December 31, 2011 was \$0.2 million and \$0.5 million, respectively, compared to an unrealized loss of \$0.03 million and an unrealized gain of \$0.3 million for the respective periods in 2010 and resulted from the revaluation of securities held.
- Deferred tax recovery for the three months and year ended December 31, 2011 was \$1.3 million and \$1.4 million, respectively, compared to a \$0.3 million expense and a \$0.4 million recovery for the same respective periods in 2010. The change is mainly a result of the tax impact on the loss on disposal of the Arenosa and Zaragoza properties to OTU.

Excluding the effect of the revaluation of financial instruments and foreign exchange on cash balances, the Company will continue to incur losses until commercial mining operations from its exploration and evaluation assets have commenced.

The Company will continue to incur losses until commercial mining operations from its mineral properties have commenced.

## SUMMARY OF QUARTERLY RESULTS

The Company currently capitalizes its exploration expenditures to mineral properties as deferred expenses.

The following table sets forth selected financial information for each of the Company's eight most recently completed quarters:

(000's of U.S. Dollars, except per share amounts)	Under IFRS <sup>(1)</sup>							
	Q4- 2011	Q3- 2011	Q2- 2011	Q1- 2011	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010
		\$	\$	\$	\$	\$	\$	\$
Net income (loss)	(3,848)	(4,011)	(2,232)	28,295	(41,588)	(43,719)	(20,690)	(13,063)
Basic income (loss) per share	(0.04)	(0.04)	(0.02)	0.28	(0.46)	(0.58)	(0.29)	(0.30)
Diluted income (loss) per share	(0.04)	(0.04)	(0.02)	0.25	(0.46)	(0.58)	(0.29)	(0.30)
Adjusted net income (loss) <sup>(2)</sup>	(3,356)	(8,923)	(3,997)	481	(1,351)	(3,828)	(2,529)	(2,983)
Basic adjusted net income (loss) per share	(0.03)	(0.08)	(0.04)	0.01	(0.02)	(0.05)	(0.04)	(0.07)
Diluted adjusted income (loss) per share	(0.03)	(0.08)	(0.04)	-	(0.02)	(0.05)	(0.04)	(0.07)

<sup>(1)</sup> The financial statements for 2011 have been prepared in accordance with IFRS with comparative information for 2010 restated under IFRS.

<sup>(2)</sup> Adjusted net income (loss) is a non-GAAP measure and represents net income (loss) before gain (loss) on Canadian dollar-denominated warrants and loss on reverse acquisition.

The Buriticá project is the Company's most significant project and is expected to continue to be the focus of most of the exploration and development work undertaken in the current and future fiscal years.

## SELECTED ANNUAL INFORMATION

The following is a summary of the Company's financial operating results for the years ended December 31, 2011 and 2010:

Year ended December 31 In thousands of U.S. dollars	2011	2010
Gold sales and production (ounces)	3,689	5,175
Realized gold price	\$ 1,610	\$ 1,163
Production cash cost per ounce	1,052	773
Capitalized production profits	2,057	2,021
Acquisition of and investment in exploration and evaluation assets, net of gold sales	25,992	10,861
Operating activities	(4,335)	(3,984)
Investing activities	(29,465)	(12,780)
Financing activities	21,273	110,626
Foreign exchange on cash and cash equivalents	(1,277)	1,742
Net (decrease) increase in cash and cash equivalents	(13,804)	95,604

## Production and Development Planning Activities

In 2011, the Company produced 3,689 ounces (2010 - 5,175 ounces) of gold at a production cash cost of \$1,052 per ounce (2010 - \$773 per ounce) and sold for an average realized price of \$1,610 per ounce (2010 - \$1,163 per ounce). Production cash costs relate only to mining and milling costs and do not include administrative expenditures that would normally be part of a mining operation.

Net production profits of \$2.1 million (2010 - \$2.0 million) were capitalized and included in total net capitalized exploration expenditures of \$29.2 million (2010 - \$14.2 million). See "Exploration Summary".

## Cash Flow Items

### Operating Activities

Operating activity expenditures of \$ 4.3 million (2010 - \$4.0 million) is consistent in comparison to 2010.

### Investing Activities

Investing activity expenditures of \$ 29.5 million in 2011 (2010 - \$12.8 million) are mainly due to investments in and purchases of exploration and evaluation assets, net of capitalized gold sales revenues relating to such assets. The higher expenditure in 2011 compared to 2010 is mainly due to continued advancement and acceleration of the Buriticá exploration and development programs and the acquisition of additional exploration and evaluation assets.

### Financing Activities

The Company's primary source of liquidity has been the issuance of equity-based securities for cash. The Company raised C\$97.2 million (approximately \$88 million) in 2010 through equity financings. The other source of liquidity is the exercise of warrants, broker warrants and stock options for which \$21.3 million was received during the year ended December 31, 2011 (2010 - \$22.6 million).

## Cash and Cash Equivalents

<b>As at</b>	<b>December 31</b>	December 31	January 1
In thousands of U.S. dollars	<b>2011</b>	2010	2010
	\$	\$	\$
Cash and cash equivalents	<b>83,404</b>	97,208	1,604

As at December 31, 2011, the Company maintains its surplus funds in cash with two major banks in Canada, one in Bermuda and select Colombian banks. Cash balances increased in 2010 as a result of the completion of the sale of subscription receipts and the private placement of common shares, resulting in gross proceeds totaling C\$97.2 million (approximately \$88 million). In addition, exercises of common share options, warrants and broker warrants have also contributed \$21.3 million in 2011 (2010 - \$22.6 million) to the Company's cash balances.

The Company had working capital of \$82.1 million as of December 31, 2011 (2010 - \$95.5 million; January 1, 2010 - \$0.1 million deficit), excluding the current portion of Canadian

dollar-denominated warrants. Working capital decreased in 2011 mainly due to the cash expenditures for the advancement of the Buriticá property.

From January 1, 2012 to March 7, 2012, the Company received aggregate proceeds of \$0.2 million from the exercise of 152,931 warrants and C\$0.1 million from the exercise of 80,211 stock options.

### Total Assets

The increase in total assets of \$177.6 million from December 31, 2010 (\$159.1 million) and January 1, 2010 (\$48.8 million) is mainly a result of the exercise of share options, warrants and broker warrants in 2011 which raised \$21.3 million (2010 – \$22.6 million). The increase in 2010 is also a result of equity issues, which raised a total of C\$97.2 million (approximately \$88 million) to finance the advancement of the Buriticá project, together with the exercise of share options and warrants over the periods.

### Commitments

In April 2010, the Company entered into a five-year lease agreement for office facilities in Toronto. The Company's estimated gross annual rent will be approximately C\$168,000 depending upon the actual annual operating costs for the building. Rent payments commenced on September 1, 2010. The Company also has a sublet arrangement with a Canadian mining company to share a proportionate share of the rent payments, leasehold improvements and furniture and fixture costs from September 1, 2010 onwards.

### Contingencies

The Company's exploration and development activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and becoming more restrictive. As of December 31, 2011, the Company does not believe that there are any significant environmental obligations requiring material capital outlays in the near-term and anticipates that such obligations, if any, will only arise when mine development commences.

## LIQUIDITY, CAPITAL RESOURCES AND BUSINESS PROSPECTS

The adequacy of the Company's capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, forward gold prices, the mining industry, economic conditions and the associated risks. In order to maintain or adjust its capital structure, the Company may adjust project capital spending, issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or issue new debt.

Historically, the Company's sole source of funding has been the issuance of equity-based securities for cash. During the years ended December 31, 2011 and 2010, the following equity transactions were completed:

- On September 20, 2010, pursuant to the terms of the certificates governing its share purchase warrants exercisable at \$1.75, the Company elected to accelerate the expiry date of the share purchase warrants from March 20, 2012 to October 20, 2010. All such share purchase warrants were exercised prior to their expiry.
- On September 16, 2010, the Company completed an equity financing consisting of the issue of 12,000,000 units at a price of C\$5.70 per unit or gross proceeds of C\$68.4

million. Each unit consists of one common share and one-half of one share purchase warrant. Each full share purchase warrant has an exercise price of C\$7.50 and an expiry date of September 16, 2012. In addition, the underwriters received a cash commission of 5.25% of gross proceeds and 720,000 broker warrants exercisable to acquire one unit (the "additional units") at a price of C\$5.70 until September 16, 2012. Each additional unit consists of one common share and one-half of one common share purchase warrant (the "additional warrants"). Each full additional warrant has an exercise price of C\$7.50 for a period of two years. Pursuant to the terms of the financing, the purchase warrants and the additional warrants were listed and began trading on the TSX on January 17, 2011.

- On January 28, 2010 and February 11, 2010, the Company completed an equity financing consisting of the issue of 19,166,667 subscription receipts at a price of C\$1.50 per subscription receipt for gross proceeds of approximately C\$28.8 million. Each subscription receipt converted into one unit which consisted of one common share and one half of one share purchase warrant of the Company. Each full share purchase warrant has an exercise price of C\$2.25 per share and expired March 30, 2011. All such share purchase warrants were exercised prior to their expiry.

The Company also received aggregate proceeds of approximately \$21.3 million (2010 – approximately \$22.6 million) from the exercise of 7,335,182 share purchase warrants, 724,417 broker warrants and 1,041,412 stock options during 2011 (2010 - 12,442,444 share purchase warrants, 1,121,250 broker warrants and 1,789,427 stock options).

The Company's financial position at December 31, 2011 included \$83.4 million in cash and cash equivalents, compared to \$97.2 million at December 31, 2010 and \$1.6 million at January 1, 2010. As at March 7, 2012, cash and cash equivalents amounted to approximately \$78.4 million.

As at December 31, 2011, the exercise in full of the outstanding share purchase warrants, broker warrants and stock options would raise a total of approximately \$77.3 million. Management does not know when and how much will be collected from the exercise of such securities, as this is dependent on the determination of the holder and the market price of the common shares.

The Company continues to have no debt and its credit and interest rate risk is minimal. Accounts payable and accrued liabilities are short-term and non-interest bearing.

The Company's liquidity risk with financial instruments is minimal as excess cash is invested in interest bearing accounts with two major Canadian banks. In addition, amounts receivable are comprised mainly of advances to employees for disbursements made on behalf of the Company to be transferred to deferred expenses upon receipt of detailed expense reports.

The Company has no operating revenues, and therefore must utilize its current cash reserves, income from short-term investments, funds obtained from the exercise of warrants and stock options and other financing transactions to maintain its capacity to meet working capital requirements and planned expenditures, or to fund any further development activities.

The Company's underground exploration development at the Buriticá project includes the results from small-scale gold production. Aggregate gold sales for the year ended December 31, 2011 of \$6.0 million (2010 – \$6.1 million) resulted from exploration work and drifting in ore. Gold sales are viewed as a recovery of expenses and used as another source of funding

the Company's exploration program. As a result, gold sales, net of costs, are treated as a capital credit and netted against deferred expenses that have been incurred to-date on the Buriticá project.

As of December 31, 2011, the Company capitalized costs related to mineral properties in the amount of \$29.2 million (2010 - \$14.2 million). See "Exploration Summary".

## MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its shareholders' equity. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The board of directors of the Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. As at December 31, 2011, total shareholders' equity (managed capital) was approximately \$155.8 million (2010 - \$52.5 million; January 1, 2010 - \$31.2 million).

The properties in which the Company currently has an interest are in the exploration stage. As such the Company is dependent on external financing to fund its activities. In order to carry out its planned exploration programs and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

In light of the above, the Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient potential, if it has adequate financial resources to do so and if it fits with the Company's overall strategic plan.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year ended December 31, 2011.

The Company is not subject to any externally imposed capital requirements. The Company believes that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2011.

## SHARE CAPITAL

### Fully Diluted Shares

As at (thousands)	December 31 2011	December 31 2010	January 1 2010
Shares issued	108,145	98,549	43,500
Stock options outstanding	6,868	5,667	2,113
Warrants outstanding (US\$ denominated)	2,298	2,409	7,847
Warrants outstanding (C\$ denominated)	6,144	13,006	-
Broker Warrants outstanding	216	940	-
	<b>123,671</b>	120,571	53,460

As at December 31, 2011, the exercise of the share purchase warrants, broker warrants, including the exercise of the one-half of one warrant, and stock options in full would raise a total of approximately \$77.3 million. Management does not know when and how much will

be collected from the exercise of such securities as this is dependent on the determination of the holder and the market price of the common shares.

### **Warrants**

As at December 31, 2011, there were 6,144,000 Canadian dollar-denominated share purchase warrants (2010 - 13,005,747; January 1, 2010 - nil) and 2,298,112 warrants (2010 - 2,409,334; January 1, 2010 - 7,847,181) outstanding, each exercisable to acquire one common share of the Company. The Company also has 216,000 broker warrants outstanding as at December 31, 2011 (2010 - 940,417; January 1, 2010 - nil), each broker warrant allowing the holder to subscribe for a unit of the Company consisting of one common share and one-half of one warrant.

As at December 31, 2011, the Canadian dollar-denominated share purchase warrants outstanding would raise approximately \$45.3 million if exercised in full, the share purchase warrants outstanding would raise approximately \$2.3 million if exercised in full, and the broker warrants outstanding would raise approximately \$2.0 million if exercised in full, including the exercise of the one-half of one warrant included in each unit.

As at March 7, 2012, the Company had 6,144,000 Canadian dollar-denominated share purchase warrants, 2,145,181 share purchase warrants and 216,000 broker warrants outstanding.

### **Stock Options**

The Company has a stock option plan (the "Plan") in place under which directors, officers, employees and consultants may be granted stock options to subscribe for common shares. The maximum number of common shares issuable under the Plan is equal to 10% of the outstanding common shares of the Company at any point in time.

There were 6,868,285 outstanding stock options to purchase common shares of the Company as at December 31, 2011 (2010 - 5,667,196; January 1, 2010 - 2,113,224), of which 5,627,035 were exercisable (2010 - 3,172,334; January 1, 2010 - 650,371). The stock options outstanding as at December 31, 2011 would raise approximately \$27.7 million if exercised in full.

As at March 7, 2012, there were 9,079,362 stock options outstanding.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

### **RELATED PARTY TRANSACTIONS**

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, being the price agreed between the parties. The following is a summary of related party transactions during 2011:

- Gold sales to a refinery company, in which a director of the Company has an equity interest and is an officer, for the three months and year ended December 31, 2011 amounted to \$2.1 million and \$6.0 million, respectively, compared to \$1.0 million

and \$6.1 million for the same respective periods in 2010, and are reported as a reduction to exploration and evaluation assets on the statement of financial position. Included in accounts receivable on January 1, 2010 is \$216,000 receivable from the refinery company. No amounts were receivable on December 31, 2011 and 2010.

- On May 5, 2011, the Company acquired from the Chairman, (i) title to mineral concession contracts and rights to mineral applications adjacent to the Buriticá project and (ii) title to concession contracts adjacent to the Dominical project for total purchase consideration of \$6.2 million, including \$2.0 million cash and 495,106 common shares of the Company, valued at \$4.2 million.
- During October 2011, the Company acquired, for a nominal amount, additional licenses for properties adjacent to the Buriticá project from a company controlled by the Chairman and reimbursed the company \$0.1 million for prepaid license fees.
- On October 27, 2011, the Company transferred its Arenosa and Zaragoza properties to OTU, a private Colombian company controlled by a director of the Company, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU. The fair value of the equity interest received of \$2.5 million resulted in a \$4.1 million loss recognized in the statement of operations and comprehensive income (loss) for 2011.
- Effective November 22, 2011, the Company entered into a consulting agreement with a company controlled by the Chairman, for \$20,000 per month. Services include site visit security and logistics, technical assistance and assistance with Colombia mining law and processes. As at December 31, 2011, \$25,000 of fees was recognized and included in corporate administration and accounts payable.
- Consulting services from a company controlled by the Chairman, during the year ended December 31, 2011, in the amount of \$nil (2010 - \$275,000), is included in corporate administration. The amount owing by the Company to the related party as at January 1, 2010 was \$219,000 which is included in accounts payable and accrued liabilities. No amounts were payable as at December 31, 2011 and 2010. In addition, advances to the related party in the amount of \$nil (December 31, 2010 - \$264,000) were charged to corporate administration during 2010. As at January 1, 2010 advances to the related party in the amount of \$12,000 were outstanding and included in accounts receivable. No amounts were receivable as at December 31, 2011 and 2010.
- Legal fees, included in corporate administration, of \$nil (2010 - \$31,000) were charged by a law firm in which a director of the Company is a partner. As at January 1, 2010, \$69,000 of fees was payable to this firm and was included in accounts payable and accrued liabilities. No amounts were payable as at December 31, 2011 and 2010.
- Consulting fees, included in corporate administration, of \$nil (2010 - \$15,000) were charged by a director of the Company. As at January 1, 2010, \$64,000 of fees were payable to this individual and were included in accounts payable and accrued liabilities. No amounts were payable as at December 31, 2011 and 2010.
- Drilling services received from Terra Colombia S.A., a company with a common director, at a cost of \$74,000, were capitalized to mineral properties in 2010. No amounts were incurred in 2011. As at January 1, 2010, \$50,000 of advance

payments for future drilling services was included in prepaid exploration. No amounts were outstanding as at December 31, 2011 and 2010.

The Company also entered into the following equity transactions with officers and directors:

- On January 28, 2010, a director of the Company and companies with an officer who is also a director of Continental Gold purchased 1,596,334 units of the Company for gross proceeds of C\$2,395,000 (\$2,349,000).
- On February 11, 2010, officers and directors of the Company purchased 593,602 units in the Company for gross proceeds of C\$890,000 (\$873,000).

Transactions with related parties disclosed above are in the normal course of business and are recorded at the exchange amount, being the price agreed between the parties.

### CONTRACTUAL OBLIGATIONS

As at December 31, 2011, the Company had the following payments due on contractual obligations and commitments:

<b>Contractual Obligation</b> In thousands of U.S. dollars	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>&gt;5 years</b>
	\$	\$	\$	\$	\$
Operating lease obligations <sup>(1)</sup>	<b>663</b>	<b>168</b>	<b>330</b>	<b>165</b>	<b>-</b>
Rehabilitation obligations <sup>(2)</sup>	<b>577</b>	<b>85</b>	<b>418</b>	<b>74</b>	<b>-</b>
<b>Total</b>	<b>1,240</b>	<b>253</b>	<b>748</b>	<b>239</b>	<b>-</b>

<sup>(1)</sup> In April 2010, the Company entered into a five-year lease agreement for office facilities in Toronto.

<sup>(2)</sup> Represents undiscounted cash flows

As at December 31, 2011, a rehabilitation provision of \$519,000 (2010 - \$215,000) was recorded, representing the discounted value of the expected future cash flows. The increase in the provision for the year related to an updated closure plan for the current mine, waste and tailings facilities.

### FINANCIAL INSTRUMENTS AND RELATED RISKS

The Company manages capital and its exposure to financial risks by ensuring it has sufficient financial capacity to support exploration and development plans and long-term growth strategy.

The Company is subject to various financial risks that could have a significant impact on financial conditions and the Company's ability to advance its exploration projects. These risks include liquidity risk, credit risk and financial market conditions relating to interest rates, gold price and currency rates.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company's management team carries out risk management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

## Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. The Company has treasury policies designed to support managing of liquidity risk by proactively mitigating exposure through cash management, including forecasting its liquidity requirements with available funds and anticipated cash flows. As at December 31, 2011, the Company had cash and cash equivalents of \$83,404,000 (2010 - \$97,208,000; January 1, 2010 - \$1,604,000) to settle current liabilities of \$2,947,000, excluding the current portion of Canadian dollar-denominated warrants (2010 - \$3,812,000; January 1, 2010 - \$1,692,000). The majority of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has begun to examine its options to secure additional sources of funds including public issuances, private placements and the exercise of outstanding warrants and options.

## Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. In the normal course of business, the Company is not exposed to market risks as a result of its investments being held in cash or short-term investment certificates.

## Currency Risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the U.S. dollar and major purchases are transacted primarily in U.S. dollars and Colombian pesos. The Company funds certain operations, exploration and administrative expenses in Colombia on a cash call basis using Colombian pesos converted from its Canadian and/or U.S. dollar bank accounts held in Canada. During 2011, the Company maintained Canadian and U.S. dollar bank accounts in Canada, a U.S. dollar bank account in Bermuda and Colombian pesos bank accounts in Medellín. The Company is subject to gains and losses due to fluctuations in the Colombian peso and the Canadian dollar against the Company's U.S. dollar functional currency. Sensitivity to a plus or minus 10% change in all foreign currencies (Colombian pesos and Canadian dollars) against the U.S. dollar, with all other variables held constant as at December 31, 2011, would affect net loss and comprehensive loss by approximately \$6.6 million.

## Interest Rate Risk

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and assets. In the normal course of business, the Company is exposed to interest rate fluctuations as a result of cash and cash equivalents being invested in interest-bearing instruments. Interest rate risk is minimal, as the Company's interest-bearing instruments have fixed interest rates.

## Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising

from its properties. The Company's cash and cash equivalents are held with banks in Colombia, Bermuda and Canada. The Company limits material counterparty credit risk on these assets by dealing with financial institutions with credit ratings of at least A or equivalent, or those which have been otherwise approved. Amounts receivable consist of receivables from unrelated parties. Amounts receivable are current as of December 31, 2011, December 31, 2010 and January 1, 2010. Management believes that the credit risk concentration with respect to amounts receivable is minimal based on the Company's history with these unrelated parties.

### Fair Value

As at December 31, 2011, the carrying and fair value amounts of the Company's financial instruments were approximately equivalent.

## MARKET TRENDS

### Global Financial Market Conditions

Events and conditions in the global financial markets particularly over the last two years continue to impact gold prices, commodity prices, interest rates and currency rates. These conditions as well as market volatilities may have a positive or negative impact on the Company's operating costs, project exploration and development expenditures, and planning of the Company's projects.

### Gold Market

The Company's economic assessment of its gold projects is impacted by the market driven gold price. The gold market is affected by negative real interest rates over the near to medium term, continued sovereign debt risks, elevated geo-political risks, mine production and substantial above-ground reserves that can affect the price should a portion of these reserves be brought to market.

While many factors impact the valuation of gold, traditionally the key factors are actual and expected U.S. dollar value, global inflation rates, oil prices and interest rates.

The global financial market crisis affected the volatility of gold and other commodity prices, oil prices, currencies and the availability of credit. The gold price has displayed considerable volatility in the last few years. The spot daily gold price closing in 2011 was between \$1,313 and \$1,900 per ounce (\$1,062 and \$1,424 per ounce in 2010) for an average 2011 price of \$1,572 (2010: \$1,225) per ounce. Continued uncertainties in the major markets, specifically in the U.S. and European countries, and the increased investments from Asian countries, namely India and China, were the main driving forces in the rise in the demand for gold.

<b>As at December 31</b> (\$/ounce of gold)	<b>2011</b>	2010
Average market gold price	<b>1,572</b>	1,225
Closing market gold price	<b>1,531</b>	1,405

The Company's shareholder value increase in 2011 was partially impacted by the rising gold price.

As the following graph depicts, the price leverage impact is significant and correlated to the Company's share price movement.



### Currency

The Company's functional and reporting currency is the U.S. dollar. Movement in the Canadian dollar against the U.S. dollar has a direct impact on the Company's executive office cost base and cash balances. Movement in the Colombian peso has a direct impact on the Company's exploration activities. Currencies continued to experience volatility relative to the U.S. dollar in 2011. The key currencies to which the Company is exposed are the Canadian dollar and the Colombian peso.

	Closing Rate December 31 2011	Closing Rate December 31 2010	Average Rate 2011	Average Rate 2010
Canadian dollar/U.S.\$	0.9833	1.003	1.011	0.9708
Colombian peso /U.S.\$	0.00052	0.00052	0.00055	0.00052

During 2012, the Company will have a significant U.S. dollar and Colombian peso requirement due to exploration activities, including expenditures to advance the Buritica project. As at December 31, 2011, the Company held \$19.0 million in U.S. dollars, representing approximately 33% of 2012 planned exploration expenditures. As at March 7, 2011, the Company held approximately \$13.0 million in U.S. dollars, representing approximately 17% of total cash balances, to protect against currency volatility in 2012.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's audited financial statements under IFRS requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements. The accounting estimates considered to be significant are the valuation of the Company's resource assets and equity instruments, the factors considered in determining the Company's functional currency, and the inputs used in determining the balances recorded for the rehabilitation provision, commitments and contingencies. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

The policy of capitalizing exploration costs to date does not necessarily relate to the future economic value of the exploration properties. The valuation of mineral resource properties is dependent entirely upon the discovery of economic mineral deposits.

The Company uses the Black-Scholes model to determine the fair value of options and warrants. The main factor affecting the estimates of stock-based compensation is the stock price volatility used. The Company uses historical price data and comparables in the estimate of the stock price volatility.

Changes in the accounting estimates in the items discussed above may have a material impact on the financial position of the Company.

Other items requiring estimates are accounts receivable, accounts payable and accrued liabilities, asset retirement obligations and future income taxes. Changes in the accounting estimates in these items may have a material impact on the financial position of the Company.

## CHANGES IN ACCOUNTING POLICIES

### Future Accounting Changes

#### *IFRS 9 – Financial Instruments*

The IASB has issued IFRS 9, Financial Instruments, which replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Finally, IFRS 9 requires that fair value changes due to credit risk for financial liabilities designated at fair value through profit and loss for liabilities be generally recorded in other comprehensive income.

The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

#### *IFRS 13 – Fair Value Measurement*

The IASB has issued IFRS 13, Fair Value Measurement which sets out a framework for measuring fair value and new required disclosures about fair value measurements for use across all IFRS standards in a single IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

#### *IFRS 10 – Consolidated Financial Statements*

The IASB has issued IFRS 10, Consolidated Financial Statements which requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of *IAS 27, Consolidated and Separate Financial Statements*.

The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

#### *IFRS 12 – Disclosure of Interests in Other Entities*

The IASB has issued IFRS 12, Disclosure of Interests in Other Entities which establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

#### *IAS 1 – Presentation of Financial Statements*

The IASB has amended IAS 1, Presentation of Financial Statements to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

#### *IFRS 7 – Financial Instruments: Disclosures*

The IASB has amended IFRS 7, Financial Instruments: Disclosures to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets.

The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

### *IAS 12 – Income Taxes*

The IASB has amended IAS 12, Income Taxes to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted. The Company is in the process of evaluating the impact of the change in its financial statements.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES**

There were no significant changes in the Company's internal controls, or in other factors, that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation as of December 31, 2011 nor were there any significant deficiencies or material weaknesses in the Company's internal controls identified requiring corrective actions.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that its disclosure controls and internal controls over financial reporting will prevent or detect all errors and fraud. A cost effective system of internal controls, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

### **QUALIFIED PERSON**

Except as otherwise noted, Mark Moseley-Williams, President and Chief Operating Officer of the Company, is the Qualified Person under NI 43-101: Standards of Disclosure for Mineral Projects. He is responsible for preparing and supervising the preparation of the scientific or technical information contained in this MD&A and verifying the technical data disclosed in this document relating to our projects. Mr. Moseley-Williams has consented to the inclusion of this information in the form and context in which it appears in this MD&A.

### **SAMPLE ANALYSIS**

Drilling in 2011 was completed by Major Drilling Group International Inc. and Kluane Drilling Ltd., both Canadian contractors with significant experience in Colombia and in the type of drilling required by the Company - diamond drilling extracting HQ and NQ diameter core samples. Drill core recovery rates averaged greater than 90%, well within industry-

acceptable parameters. Sampling was done by Company personnel. In areas of visual alteration or mineralization, maximum sample length was 1.0 metres with many samples being taken in shorter, geologically determined intervals. Core was sawed in half, with one-half being sent to the SGS Laboratory ("SGS") sample preparation facility in Medellin, Colombia. Following sample preparation, the SGS-certified laboratory in Lima, Peru analyzed all samples for gold by fire assay and for a large suite of additional elements by the Induction Coupled Plasma (ICP) method. ICP values for silver of greater than 10 ppm and for zinc, lead, and copper of greater than 1,000 ppm were re-assayed by atomic absorption. Blanks, duplicates and certified reference standards are inserted into the sample stream to monitor laboratory performance and a portion of the samples are periodically check assayed at ACME Analytical Laboratories (Vancouver) Ltd. in Vancouver, B.C., Canada and/or Inspectorate America Corp. in Reno, Nevada, U.S.A. Analysis of the numerous different standards and blanks inserted into the sample stream as well as sample duplicates gave no indications of laboratory errors outside of acceptable limits. Standards, blanks, and duplicates totaled approximately 22% of all drill samples analyzed.

## **RISKS AND UNCERTAINTIES**

The business of the Company is subject to a variety of risks and uncertainties, including those described below. The Common Shares should be considered highly speculative due to the nature of its business and the present stage of its development and the location of its properties in Colombia. The reader should carefully consider the information below as well as the risks disclosed in the Company's financial statements, management's discussion and analysis and in other publicly-filed documentation regarding the Company available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). These risk factors are not a definitive list of all risk factors associated with an investment in the Company or in connection with the Company's operations and any of these risk elements could have a material adverse effect on the business of the Company.

### **Nature of Mineral Exploration**

Resource exploration and development is a speculative business and involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The properties in which the Company holds an interest, with the exception of the Buriticá Project, are without a known mineral resource. Each of the proposed programs on the properties is an exploratory search for resources or additional resources. There is no assurance that commercial quantities of resources will be discovered. There is also no assurance that even if commercial quantities of resources are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade, ground conditions and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

## Foreign Country Risk

The Company's principal mineral properties are located in Colombia. Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to inflation, unemployment and inequitable income distribution. Colombia is also home to South America's largest and longest running insurgency and large swaths of the countryside are under guerrilla influence. In addition, Colombia experiences narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. Such instability may require the Company to suspend operations on its properties. Although the Company is not presently aware of any circumstances or facts which may cause the following to occur, other risks may involve matters arising out of the evolving laws and policies in Colombia, any future imposition of special taxes or similar charges, as well as foreign exchange fluctuations and currency convertibility and controls, the unenforceability of contractual rights or the taking or nationalization of property without fair compensation, restrictions on the use of expatriates in the Company's operations, or other matters.

The Company also bears the risk that changes can occur in the government of Colombia and a new government may void or change the laws and regulations that the Company is relying upon. Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia (including minerals) be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

## No Assurance of Titles or Boundaries

The Company is not the registered holder of all of the licences or concessions that comprise its Colombia projects. Some of the licences and concessions that comprise the Colombia projects are registered in the names of certain entities controlled by Bullet Holding Corporation ("Bullet"), a company controlled by the Chairman. The Company's interest in the Colombia Projects is derived from the Concession Sale Agreement. Under the Concession Sale Agreement, Bullet has agreed to transfer the licences and concessions that comprise such properties to the Company. There can be no assurance, however, that such transfers will be effected. In addition, in the event of a dispute between the parties to the Concession Sale Agreement, the Company's only recourse against Bullet will be to seek enforcement of the terms of the Concession Sale Agreement. If the Company is required to commence legal proceedings to enforce the terms of the Concession Sale Agreement, there is no assurance that the Company will succeed in such proceedings, and, therefore, may never succeed in obtaining title to such properties.

The Company has obtained a title report from Colombian legal counsel with respect to title to the Colombia projects held by the Company and Bullet but this should not be construed as a guarantee of title. Other parties may dispute title to any of the Company's mineral properties and any of the Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected encumbrances or defects or governmental actions. The Company does not have all of the surface rights at the Colombia projects and there is no assurance that these surface rights will be granted or they will be on reasonable terms if granted.

The foregoing analysis also applies to any exercise by the Company of the Bullet Option. Title to these properties are registered in the names of certain entities controlled by Bullet; however, Bullet's land holdings may increase or decrease without notice to the Company.

### **Limited Operating History**

The Company has no history of generating operating revenue or profits. There can be no assurance that it will generate operating revenues or profits in the future.

### **Requirement for Further Financing**

The Company has sufficient financial resources to undertake its currently planned exploration and development programs for 2012, but will require additional funds to fund further exploration, future acquisitions and additional development and mine construction programs. The further exploration and development of the various mineral properties in which the Company holds interests and the acquisition of additional properties depend upon the Company's ability to obtain financing through joint ventures of projects, debt financing, equity financing or other means. There can be no assurance that the Company will be able to raise the balance of the financing required or that such financing can be obtained without substantial dilution to shareholders. Failure to obtain additional financing on a timely basis could cause the Company to reduce or terminate its operations or lose its interest in its properties.

### **Fluctuation in Mineral Prices**

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resource are discovered, a profitable market will exist for the sale of same or that mineral prices will be such that the Company's properties can be mined at a profit. Factors beyond the control of the Company may affect the ability of the Company to attract investors and receive further funds for exploration. Metal prices have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the Canadian and United States dollar and the Colombian peso relative to other currencies), interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. In particular, the supply of and demand for gold are affected by, among other factors, political events, economic conditions and production costs in major gold producing regions and governmental or central bank policies with respect to gold holdings.

### **Uninsurable Risks**

Exploration, development and production operations on mineral properties involve numerous risks, including but not limited to unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, landslides, earthquakes and other environmental occurrences, risks relating to the shipment of precious metal concentrates or ore bars, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

### **Preliminary Economic Assessment**

The Company is currently working on a preliminary economic assessment ("PEA") to determine the potential economic viability of the mineral resources comprising the Buriticá Project. The PEA may include or be based on inferred resources which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. The use of inferred mineral resources in the PEA will result in the conclusions not having the same level of confidence that might apply had the PEA only used measured and indicated mineral resources. In addition, it is important to note that mineral resources that are not mineral reserves do not have demonstrated economic viability. There is no certainty that the conclusions and recommendations of the PEA will be realized. There is a risk that the assumptions and estimates made in the PEA are incorrect or inaccurate, which could negatively impact the expected economic return on the Buriticá Project or render the Buriticá Project uneconomic.

### **Construction and Operating Cost Estimates**

Estimated construction and operating costs may differ significantly from those actually incurred which could negatively impact the economic return on the Buriticá Project or render the Buriticá Project uneconomic.

### **Environmental and Other Regulatory Requirements**

All phases of the Company's operations are subject to environmental regulation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at the present and which have been caused by previous or existing owners or operators of the properties. In addition, the owner of the Colombia Projects has a limited right to conduct small scale mining operations on such properties which may result in environmental hazards on the properties. Government approvals and permits are current, and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be restricted or prohibited from proceeding with planned exploration of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation of existing laws, could have a material adverse impact on the Company and cause increases in exploration expenses or capital expenditures or require abandonment or delays in development of new exploration properties.

### Differing Interpretations in Tax Regimes in Foreign Jurisdictions

Tax regimes in foreign jurisdictions may be subject to sudden changes. The Company's interpretation of taxation law where it operates and as applied to its transactions and activities may be different than that of applicable tax authorities. As a result, tax treatment of certain operations, actions or transactions may be challenged and reassessed by applicable tax authorities, which could result in adverse tax consequences for the Company, including additional taxes, penalties or interest. See also "Risks and Uncertainties – Bermuda Legal Matters - The Company May Become Subject to Taxes in Bermuda".

### Canadian Tax Resident Status

Although the Company is a Bermuda company, it is considered resident in Canada for purposes of the *Income Tax Act* (Canada) because, under the common law test of corporate residency, its central management and control are located in Canada. If the Company's central management and control moved outside Canada, the Company could cease to be a resident of Canada for Canadian tax purposes and there could be material adverse tax consequences for the Company.

### Competition

The Company will compete with other exploration companies which have greater financial resources and technical facilities for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

The Company's ability to increase the number of properties that it holds in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects. Further, the gross disparity in size between large and small mining producers in Colombia restricts small producers in that they have limited influence to secure access to Colombia's transportation infrastructure, including rail and port facilities. This access is necessary for producers to access international export markets for its production and to competitively sell Colombian minerals in international markets. If the Company is successful in bringing a property into production, the Company may have difficulties successfully accessing transportation infrastructure necessary to export the minerals it may produce in the future.

### Non-Governmental Organization Intervention

The Company's relationship with the communities in which it operates are critical to ensure the future success of its existing operations and the construction and development of its projects. A number of Non-Governmental Organizations are becoming increasingly active in Colombia as the security and safety in Colombia increases. These organizations may create or inflame public unrest and anti-mining sentiment among the inhabitants in areas of mineral development. Such organizations have been involved, with financial assistance from groups mostly in Europe, in mobilizing sufficient local anti-mining sentiment to prevent the issuance of required permits for the development of other mineral projects. While the Company is committed to operating in a socially responsible manner, there is no guarantee that the Company's efforts in this respect will mitigate this potential risk.

### Conflicts of Interest

Certain directors and officers of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of natural resource exploration and development. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict is required under the *Companies Act, 1981* (Bermuda) (the "Bermuda Act") and the Bye-laws to disclose his interest.

Bullet is the largest shareholder of the Company. Robert W. Allen, who controls Bullet and Grupo de Bullet S.A. ("Grupo"), is a director of the Company and has interests in certain material contracts with the Company. By virtue of its status as the largest shareholder of the Company, there exists the possibility for Bullet to be in a position of conflict with the Company. In general, the interests of Bullet and the Company will be aligned to maximize the value of the Colombia Projects, and thereby maximize the value of the Company. Should conflicts arise, the conduct of Bullet will be subject to Canadian securities and applicable legislation concerning related party transactions and shareholder rights and remedies. In addition, the majority of directors of the Company who are independent of Bullet are responsible to act in the best interests of the Company as noted above.

### Dependence on Key Management Employees

The Company's development to date has depended, and in the future will continue to depend, on the efforts of key management employees both in Canada and Colombia. The failure to retain certain personnel and to attract suitably qualified and experienced management in the future could adversely affect the Company's ability to manage its operations. The Company does not have key man insurance in place with respect to any of these individuals.

### Outside Contractor Risks

It is common for certain aspects of mining operations, such as drilling and blasting, to be conducted by an outside contractor. Exploration drilling at the Buriticá Project is undertaken by contractors and as a result, the Company is subject to a number of risks, including reduced control over the aspects of the drilling that are the responsibility of the contractor, failure of the contractor to perform under its agreement with the Company, inability to replace the contractor if either party terminates the contract, interruption of drilling in the event that the contractor ceases operations due to insolvency or other unforeseen events, failure of the contractor to comply with applicable legal and regulatory requirements and failure of the contractor to properly manage its workforce resulting in labour unrest or other employment issues.

### Labour and Employment Matters

While the Company has good relations with its employees, these relations may be impacted by changes in labour laws which may be introduced by the relevant governmental authorities in whose jurisdictions the Company carries on business. Adverse changes in such legislation may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's workforce at the Buriticá Project is governed by a union and a cooperative agreement. Although labour relations with its employees have historically been good, there is no assurance that this will continue in the future. Any significant disruption in labour arrangements with either the union or cooperative could have a material adverse effect on the Company's ability to continue to operate.

### **Artisanal Miners**

The Company's mining concessions are held in remote areas of Colombia that have historically been mined by artisanal miners. As the Company further explores and advances mining projects towards production, it must evict or negotiate with artisanal miners who have been operating on the Company's mining concessions illegally for years. In addition, there is a risk that such artisanal miners may oppose the Company's operations, which may result in a disruption to the planned redevelopment works and/or to mining and processing operations. This could have a material adverse effect on the Company's business, operating results and financial position.

### **Reliability of Mineral Resource Estimates**

There is no certainty that any of the mineral resources on the Buriticá Project or any other project with mineral resources will be realized. Until a deposit is actually mined and processed, the quantity of mineral resources and grades must be considered as estimates only. In addition, the quantity of mineral resources may vary. Any material change in quantity of mineral resources, grade or stripping ratio may affect the economic viability of any project undertaken by the Company. In addition, there can be no assurance that gold recoveries or other metal recoveries in small scale laboratory tests will be duplicated in a large scale test under on-site conditions or during production.

Fluctuations in gold and base or other precious metals prices, results of drilling, metallurgical testing and production and the evaluation of studies, reports and plans subsequent to the date of any estimate may require revision of such estimate. Any material reductions in estimates of mineral resources could have a material adverse effect on the Company's results of operations and financial condition.

### **Foreign Subsidiaries**

The Company conducts operations through foreign subsidiaries and some of its assets are held in such entities. Any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

### **Residency of Directors, Officers and Others**

A number of the directors and officers of the Company reside outside of Canada. Substantially all of the assets of these persons, and the Company, are located outside of Canada. As a result, it may not be possible for investors to effect services of process within Canada upon these directors or officers. It may also not be possible to enforce against certain of the Company's directors and officers, and certain experts named herein, as judgments obtained in Canadian courts are predicated upon civil liability provisions of applicable securities laws in Canada.

### Minority Interests

The Company holds a 25% interest in Minerales OTÚ S.A. ("OTU"), the other 75% interest being held by a company controlled by the Chairman. The Company accounts for this investment as an investment in associate. The Company's interest in OTU is subject to the risks normally associated with the control of minority interests. The existence or occurrence of one or more of the following circumstances and events, for example, could have a material adverse impact on Company's profitability or the viability of its interests held through minority interests, which could have a material adverse impact on future cash flows, earnings, results of operations and financial condition: disagreement with controlling shareholder on how to explore, develop and operate mines efficiently; inability of shareholders to meet their obligations; inability to sell a minority interest to third parties; or litigation arising between shareholders regarding matters.

### Foreign Currency Fluctuations

The Company's current and proposed exploration operations in Colombia render it subject to foreign currency fluctuations, which may materially affect its financial position and results. The Company holds Canadian and U.S. dollars and sends funds to Colombia in U.S. dollars and converts these funds into Colombian pesos. The important exchange rates for the Company are currently the rate between the U.S. dollar, Canadian dollar and the Colombian peso. While the Company is funding work in Colombia, the Company's results could be impaired by adverse changes in the U.S. dollar and Canadian dollar to Colombian peso exchange rate. The Company's common shares are listed on the TSX, a Canadian stock exchange. Prior and future equity financings result in the generation of Canadian dollar proceeds to fund the Company's activities which are principally incurred in U.S. dollars or Colombian pesos. To the extent funds from such financings are maintained in Canadian dollars, the Company's results can be significantly impacted by adverse changes in exchange rates between the Canadian dollar and the U.S. dollar and Colombian peso.

### Unreliable Historical Data

The Company has compiled technical data in respect of the Colombia Projects, much of which was not prepared by the Company. While the data represents a useful resource for the Company, much of it must be verified by the Company before being relied upon in formulating exploration programs.

### Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Management of the Company believes that the potential for infrastructure weaknesses in Colombia is comparable to those in any remote mining location located in other parts of the world.

## Government Regulation

The mining, processing, development and mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although the Company's mining and processing operations and exploration and development activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of exploration, mining and milling or more stringent implementation thereof could have an adverse impact on the Company.

## Health and Safety Risk

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities due to accidents that could result in serious injury or death. The impact of such accidents could affect the profitability of the operations, cause an interruption to operations, lead to a loss of licenses, affect the reputation of the Company and its ability to obtain further licenses, damage community relations and reduce the perceived appeal of the Company as an employer. The Company has rigorous procedures in place to manage health and safety protocols in order to reduce the risk of occurrence and the severity of any accident and is continually investing time and resources to enhance health and safety at all operations.

The Company has insurance policies in place to cover accidents and regularly monitors the adequacy of such policies.

## Market Price of Common Shares of the Company

Securities of mineral exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the common shares of the Company is also likely to be significantly affected by short-term changes in precious and base metal mineral prices or in its financial condition or results of operations as reflected in its quarterly earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of the common shares of the Company include the following: the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not continue to follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of common shares of the Company; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of the common shares of the Company that persists for a significant period of time could cause the Company's securities to be delisted from the exchange on which they trade, further reducing market liquidity.

As a result of any of these factors, the market price of the common shares of the Company at any given point in time may not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the

target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

### **Dividend Policy**

No dividends on the Shares of the Company have been paid by the Company to date. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

### **Future Sales of Common Shares of the Company by Existing Shareholders**

Sales of a large number of common shares of the Company in the public markets, or the potential for such sales, could decrease the trading price of the common shares of the Company and could impair the Company's ability to raise capital through future sales of common shares of the Company. The Company has previously completed private placements at prices per share which are from time to time lower than the market price of the common shares of the Company. Accordingly, a significant number of shareholders of the Company have an investment profit in the common shares of the Company that they may seek to liquidate.

### **Accounting Policies and Internal Controls**

The Company prepares its financial reports in accordance with international financial reporting standards ("IFRS") applicable to publicly accountable enterprises effective January 1, 2011. In preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies are described in more detail in the Company's audited financial statements. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported, the Company has implemented and continues to analyze its internal control systems for financial reporting. Although the Company believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, the Company cannot provide absolute assurance.

### **Bermuda Legal Matters**

The Company is incorporated and existing under the Bermuda Act and is thereby subject to the laws of Bermuda. The following is a non-exhaustive summary of certain laws of Bermuda which are relevant to the operations of the Company.

#### *Bermuda Monetary Authority Consent Required for Free Transferability of Common Shares of the Company*

The Bermuda Monetary Authority (the "BMA") must approve all issues and transfers of shares of a Bermuda exempted company under the Exchange Control Act 1972 (Bermuda) and regulations thereunder. The BMA has given a general permission which will permit the issue of the Common Shares of the Company and the subsequent transfer of such shares so long as voting securities of the Company are listed for trading on an appointed stock exchange, and the TSX and TSX-V qualify for this purpose.

### *Enforcement of Judgments in Bermuda May be Difficult*

As the Company is a Bermuda-exempted company, the rights of shareholders will be governed by Bermuda law and the Memorandum and Bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. Although the majority of the directors of the Company are residents of Canada, the majority of the Company's assets are located outside of Canada, which could make it difficult for investors to effect service of process on directors outside of Canada or to enforce in Canada judgments obtained in the Canadian courts against the Company or those persons who may be liable under Canadian law. The current position with regard to enforcement of judgments in Bermuda is set out below but this may be subject to change. A final and conclusive judgment of a foreign court against the Company, under which a sum of money is payable (not being a sum of money payable in respect of multiple damages, or a fine, penalty tax or other charge of a like nature) may be the subject of enforcement proceedings in the Supreme Court of Bermuda (the "Bermuda Court") under the common law doctrine of obligation by action on the debt evidenced by the foreign court's judgment. On general principles, such proceedings would be expected to be successful provided that:

- (a) the court which gave the judgment was competent to hear the action in accordance with private international law principles as applied in Bermuda; and
- (b) the judgment is not contrary to public policy in Bermuda, has not been obtained by fraud or in proceedings contrary to natural justice, and is not based on an error in Bermuda law.

Enforcement of such a judgment against assets in Bermuda may involve the conversion of the judgment debt into Bermuda dollars, but the BMA has indicated that its present policy is to give the consents necessary to enable recovery in the currency of the obligation.

No stamp duty or similar or other tax or duty is payable in Bermuda on the enforcement of a foreign judgment. Court fees will be payable in connection with proceedings for enforcement.

### *The Company May Become Subject to Taxes in Bermuda*

Bermuda currently has no income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable in respect of capital gains realized on a disposition of Common Shares of the Company or in respect of distributions by the Company with respect to Common Shares of the Company other than the application of Bermuda taxes to persons ordinarily resident in Bermuda. The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended (Bermuda), has given the Company assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Company or any of the Company's operations, shares or other obligations until March 31, 2035.

### *Exemption from Exchange Controls*

The Company is designated as "non-resident" for exchange control purposes by the BMA. Where a company is so designated, it is free to deal in currencies of any other country outside the Bermuda exchange control area which are freely convertible into currencies of any other country.

### *Limitations on Carrying on Business*

The Company has been incorporated in Bermuda as an "exempted company". Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As a result, they are exempt from Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians, but they may not participate in certain business transactions, including:

- (a) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for terms of not more than 50 years) without the express authorization of the Bermuda legislature;
- (b) the taking of mortgages on land in Bermuda to secure an amount in excess of BD\$50,000 without the consent of the Minister of Finance;
- (c) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities; or
- (d) the carrying on of business of any kind in Bermuda, except in furtherance of their business carried on outside Bermuda or under license granted by the Minister of Finance of Bermuda.

### *Compulsory Acquisition Rules*

Pursuant to the Bermuda Act, where a scheme or contract involving the transfer of shares of a Bermuda company has been approved by the holders of 90% of the shares, the offeror can then give notice in the prescribed form to any dissenting shareholder(s) and, unless on an application made by the dissenting shareholder (within one month from the date on which the notice was given), the Bermuda Court thinks fit to order otherwise, the offeror shall be entitled and bound to acquire the holdings of the dissenting shareholder(s).

Pursuant to the Bermuda Act, a holder of 95% of the shares of a Bermuda company can, on giving notice to the minority shareholders, force them to sell their interest to such 95% holder provided that the terms offered are the same for all of the holders of the shares whereupon the acquiring shareholder is bound to acquire the outstanding shares on the terms set out in the notice. The 5% shareholders can apply to the Bermuda Court for an appraisal of their shares. Once notice has been given, the acquiring shareholder is bound to acquire the outstanding shares on the terms set out in the notice.

## **2012 OUTLOOK**

The Company is expected to spend approximately \$42.8 million on the following drilling and other related activities in 2012:

- Buriticá:
  - During the first quarter of fiscal 2012, the Company submitted an environmental impact assessment (EIA) with the environmental authorities to seek approval to begin construction of a one-kilometre ramp starting in the Higabra valley and a switchback road from the existing road at the top of the mountain ridge to the Higabra valley. The ramp will initially be used for further exploration and eventually used for commercial purposes. The Company expects to receive the environmental permit and to begin construction in the second half of 2012.

- Complete phase III 60,000-metre drill program aimed at expanding and in-filling the Veta Sur and Yaragua zones in addition to testing the high-grade anomalies surrounding these zones.
- Continued developmental efforts including geo-mechanical and metallurgical testing, and baseline environmental program at Buriticá.
- Update the NI 43-101 resource estimate.
- Completion of a preliminary economic assessment.

**ADDITIONAL INFORMATION**

Additional information relating to the Company, including the Company's Annual Information Form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Continental Gold Limited (the "Company") were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the audited annual financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting responsibilities and for reviewing and approving the annual audited financial statements together with other financial information. An Audit Committee, whose members are not officers of the Company, assists the Board of Directors in fulfilling this responsibility. The Audit Committee, on behalf of the Board of Directors, meets with management to review the internal controls over the financial reporting process, the annual audited financial statements together with other financial information of the Company, and the auditor's report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

*(signed) Ari Sussman*

Ari Sussman  
Chief Executive Officer

*(signed) Paul Begin*

Paul Begin  
Chief Financial Officer

March 7, 2012



# INDEPENDENT AUDITOR'S REPORT

March 8, 2012

## Independent Auditor's Report

### To the Shareholders of Continental Gold Limited

We have audited the accompanying financial statements of Continental Gold Limited, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years ended December 31, 2011 and December 31, 2010 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants  
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215, [www.pwc.com/ca](http://www.pwc.com/ca)

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Continental Gold Limited as at December 31, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Continental Gold Limited's ability to continue as a going concern.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

CONTINENTAL GOLD LIMITED  
STATEMENTS OF FINANCIAL POSITION

As at (in 000's of U.S. Dollars)	Notes	December 31, 2011 \$	December 31, 2010 (Note 28) \$	January 1, 2010 (Note 28) \$
<b>Assets</b>				
Current assets				
Cash and cash equivalents		83,404	97,208	1,604
Marketable securities	8(b)	486	892	-
Receivables and prepaid expenses	9	1,154	1,234	232
		<b>85,044</b>	99,334	1,836
<b>Non-current assets</b>				
Restricted cash	8(a)	89	305	83
Long-term portion of receivable	9	-	623	-
Prepays and advances	10	309	419	355
Intangible assets		288	190	27
Property, plant and equipment	11	5,811	3,456	1,863
Exploration and evaluation assets	12	83,521	54,809	44,673
Investment in associate	13	2,526	-	-
		<b>92,544</b>	59,802	47,001
		<b>177,588</b>	159,136	48,837
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	12(d),15	2,947	3,739	1,636
Income taxes payable	19	-	73	56
Current portion of Canadian dollar-denominated warrants	14	6,646	55,865	-
		<b>9,593</b>	59,677	1,692
<b>Non-current liabilities</b>				
Canadian dollar-denominated warrants	14	-	34,209	-
Equity tax liability	15	531	-	-
Rehabilitation provision	16	509	215	208
Deferred tax liability	19	11,151	12,551	12,932
Convertible debt		-	-	2,788
		<b>12,191</b>	46,975	15,928
		<b>21,784</b>	106,652	17,620
<b>Shareholders' equity</b>				
Share capital	20	24	17	12
Share premium reserve		247,281	168,688	34,135
Warrants and broker warrants reserve	21	1,706	3,719	3,129
Share-based payment reserve		14,924	6,395	1,215
Deficit		(108,131)	(126,335)	(7,274)
		<b>155,804</b>	52,484	31,217
		<b>177,588</b>	159,136	48,837
Nature of operations and Going concern	1			
Commitments and contingencies	27			

APPROVED ON BEHALF OF THE BOARD:

(signed) Ari Sussman

Director

(signed) Paul Murphy

Director

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

CONTINENTAL GOLD LIMITED

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

For the years ended (in 000's of U.S. Dollars, except share and per share amounts)	Notes	<b>December 31, 2011</b>	December 31, 2010 (Note 28)
		\$	\$
<b>Operating expenses:</b>			
Corporate administration	23(e),(f),(g), (h), 24	<b>(12,143)</b>	(10,836)
Exploration expense		<b>(23)</b>	-
Write-down of assets	12(g)	<b>(186)</b>	(1,443)
Gain (loss) on sale of assets		<b>(4,080)</b>	(1,006)
		<b>(16,432)</b>	(13,285)
<b>Other income (expense):</b>			
Foreign exchange (loss) gain		<b>(1,247)</b>	1,846
Unrealized (loss) gain on marketable securities		<b>(468)</b>	312
Gain (loss) on Canadian dollar-denominated warrants	14	<b>33,999</b>	(98,147)
Loss on reverse acquisition	6	-	(10,222)
Other income		<b>166</b>	66
<b>Net income (loss) before finance items and income tax</b>		<b>16,018</b>	(119,430)
<b>Finance income (expense):</b>			
Interest income		<b>1,186</b>	219
Interest and accretion expense		<b>(83)</b>	(51)
<b>Net income (loss) before income tax</b>		<b>17,121</b>	(119,262)
<b>Income tax (expense) recovery:</b>			
Current		<b>(316)</b>	(180)
Deferred		<b>1,399</b>	381
	19	<b>1,083</b>	201
<b>Net income (loss) and comprehensive income (loss) for the period attributable to the equity holders of Continental Gold Limited</b>		<b>18,204</b>	(119,061)
<b>Net income (loss) per common share</b>			
Basic		<b>0.17</b>	(1.66)
Diluted		<b>0.16</b>	(1.66)
<b>Weighted average number of common shares outstanding</b>			
Basic	25(a)	<b>105,984,457</b>	71,562,217
Diluted	25(b)	<b>113,594,629</b>	71,562,217

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

CONTINENTAL GOLD LIMITED  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in 000's of U.S. Dollars)	Issued Capital		Reserves		Deficit	Total
	Share Capital	Share Premium Reserve	Warrants and Broker Warrants Reserve	Share-Based Payment Reserve		
	(Note 20)					
	\$	\$	\$	\$	\$	\$
Balance, January 1, 2010 (Note 28)	12	34,135	3,129	1,215	(7,274)	31,217
Conversion of debenture	-	2,832	-	-	-	2,832
Conversion of subscription receipts	2	28,199	-	-	-	28,201
Private placement	1	66,627	-	-	-	66,628
Effect of reverse acquisition	-	8,515	-	314	-	8,829
Fair value of warrants issued	-	(24,778)	-	-	-	(24,778)
Exercise of warrants – cash proceeds	2	18,816	-	-	-	18,818
Fair value of warrants exercised	-	36,173	(2,168)	-	-	34,005
Cost of issue – fair value of broker warrants issued	-	(3,397)	3,397	-	-	-
Exercise of broker warrants – cash proceeds	-	1,640	-	-	-	1,640
Fair value of broker warrants exercised	-	639	(639)	-	-	-
Share-based payments	-	-	-	6,471	-	6,471
Exercise of share-based payments – cash proceeds	-	2,095	-	-	-	2,095
Fair value of share-based payments exercised	-	1,605	-	(1,605)	-	-
Cost of issue – cash	-	(4,413)	-	-	-	(4,413)
Net loss for the period	-	-	-	-	(119,061)	(119,061)
<b>Balance, December 31, 2010</b>	<b>17</b>	<b>168,688</b>	<b>3,719</b>	<b>6,395</b>	<b>(126,335)</b>	<b>52,484</b>
Issue of shares – asset purchase (Note 23(a))	-	4,229	-	-	-	4,229
Fair value of warrants issued	-	(1,456)	-	-	-	(1,456)
Exercise of warrants – cash proceeds	7	15,918	-	-	-	15,925
Fair value of warrants exercised	-	50,930	(45)	-	-	50,885
Exercise of broker warrants – cash proceeds	-	3,259	-	-	-	3,259
Fair value of broker warrants exercised	-	1,968	(1,968)	-	-	-
Share-based payments	-	-	-	10,178	-	10,178
Exercise of share-based payments – cash proceeds	-	2,037	-	-	-	2,037
Fair value of share-based payments exercised	-	1,649	-	(1,649)	-	-
Cost of issue	-	59	-	-	-	59
Net income for the period	-	-	-	-	18,204	18,204
<b>Balance, December 31, 2011</b>	<b>24</b>	<b>247,281</b>	<b>1,706</b>	<b>14,924</b>	<b>(108,131)</b>	<b>155,804</b>

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

CONTINENTAL GOLD LIMITED

STATEMENTS OF CASH FLOWS

For the years ended (in 000's of U.S. Dollars)	Note	December 31, 2011 \$	December 31, 2010 \$
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Net income (loss) for the year		18,204	(119,061)
Items not affecting cash:			
Share-based payments	22(d)	5,913	4,155
Write-down of assets	12(g)	186	1,444
Loss on sale of assets		4,080	1,006
(Gain) loss on Canadian dollar-denominated warrants	14	(33,999)	98,147
Deferred tax recovery	19	(1,399)	(382)
Loss on reverse acquisition	6	-	10,222
Unrealized loss (gain) on marketable securities		468	(312)
Unrealized foreign exchange loss		1,247	(1,846)
Warrant issue costs expensed	20(b)(ii),(iii)	-	2,343
Other non-cash items	26(a)	54	215
Equity tax liability	15	824	-
Changes in non-cash operating working capital balances:	26(a)	87	85
		<b>(4,335)</b>	<b>(3,984)</b>
<b>Investing activities:</b>			
Long-term receivable	9	817	-
Property, plant and equipment	11	(3,452)	(1,803)
Acquisition of exploration and evaluation assets	12(d),(f)	(2,000)	-
Exploration and evaluation assets	12	(30,009)	(17,579)
Recoveries in property from gold sales	12	6,017	6,068
Other investing activities	26(b)	(838)	534
		<b>(29,465)</b>	<b>(12,780)</b>
<b>Financing activities:</b>			
Cash proceeds from subscription receipts, net of costs	20(b)(ii)	-	25,670
Cash proceeds from private placement, net of costs	20(b)(iv)	-	62,403
Cash proceeds from exercise of stock options, warrants, and broker warrants		21,273	22,553
		<b>21,273</b>	<b>110,626</b>
Net change in cash and cash equivalents during the period		<b>(12,527)</b>	93,862
Cash and cash equivalents, beginning of period		97,208	1,604
Foreign exchange effect on cash balances		(1,277)	1,742
<b>Cash and cash equivalents, end of period</b>		<b>83,404</b>	<b>97,208</b>

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

## **NOTES TO FINANCIAL STATEMENTS**

### **DECEMBER 31, 2011**

Tabular dollar amounts represent thousands of United States ("U.S.") dollars, unless otherwise shown. References to C\$ and COP are to Canadian dollars and Colombian pesos, respectively.

#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

##### **Nature of Operations**

Continental Gold Limited, a Bermuda-based, privately-owned company, was incorporated under the Companies Act, 1981 (Bermuda) by articles of incorporation dated April 26, 2007. Continental Gold Limited and Cronus Resources Ltd. ("Cronus"), a TSX Venture Exchange listed company, amalgamated under the Companies Act, 1981 (Bermuda) by articles of amalgamation dated March 30, 2010. The resulting issuer, a Bermuda-based company, now operates under the Continental Gold Limited name (the "Company") and is governed by the bye-laws of the original Continental Gold Limited. The Company formed a branch pursuant to the laws of Colombia, South America effective May 23, 2007 and carries on business in Colombia under the name, "CG de Colombia".

The Company's shares are listed on the Toronto Stock Exchange. The registered address and corporate records of the Company are located at Cumberland House, 9<sup>th</sup> floor, 1 Victoria Street, Hamilton HM 11, Bermuda.

These financial statements were approved and authorized by the Board of Directors on March 7, 2012.

##### **Going Concern**

These financial statements were prepared in accordance with IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. For the year ended December 31, 2011, the Company recorded a net income of \$18,204,000 (2010 - loss of \$119,061,000), after recognizing a gain in respect of the Canadian dollar-denominated warrants of \$33,999,000 (2010 - loss of \$98,147,000), and reported an accumulated deficit of \$108,131,000 (2010 - \$126,335,000).

The Company has a need for equity capital and financing for working capital and the exploration and development of its properties. The Company's continuance as a going concern, as an active explorer and developer, is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or sufficient or if the Company will attain profitable levels of operation. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

## 2. BASIS OF PREPARATION

### Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before adoption of IFRS. As these financial statements represent the Company's initial annual presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, *First-time Adoption of IFRS* ("IFRS 1"). The policies applied in these financial statements are based on IFRS issued and outstanding as of December 31, 2011.

Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income and the statement of financial position are provided in Note 28. Subject to certain transition elections disclosed in Note 28, the policies set out in Note 4 have been consistently applied to all the periods presented.

### Basis of Measurement

These financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value

The Company engages principally in the acquisition, exploration and development of mineral properties in Colombia. The Company currently has interests in mineral properties, including a small-scale mining operation related to exploration work and considered by the Company to be in the pre-production stage. Substantially all of the Company's efforts are devoted to exploring, financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable. The Company's assets are located in Colombia and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values of the mineral properties.

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

#### **Functional and Reporting Currency**

The functional and reporting currency of the Company is the U.S. dollar. All financial information presented in U.S. dollars in these financial statements has been rounded to the nearest thousand except when otherwise indicated.

#### **Investment in Associate**

Associates are entities over which the Company has significant influence, but not control. The Company accounts for its investment in associates using the equity method. The Company's share of profits or losses of associates is recognized in the statement of operations and comprehensive income (loss).

Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investment in associates are recognized in the statement of operations and comprehensive income (loss).

#### **Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of the Company.

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for rehabilitation provisions. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (a) Whether future economic benefits may be realized on exploration properties and the recoverability of exploration and evaluation expenditures capitalized;
- (b) The inputs used in estimating the fair value of Canadian-dollar denominated warrants, broker warrants and share-based payment transactions;
- (c) The assumptions used in determining the net present value of the rehabilitation provision included in the statement of financial position; and
- (d) The inputs used in determining the various commitments and contingencies accrued in the statement of financial position.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### **Foreign currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of the foreign currency transactions are recognized in the statement of operations and comprehensive income (loss).

In preparing the financial statements, foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities are translated at the rate of exchange prevailing when the assets were acquired or the liabilities incurred. Revenue, expense items and capitalized exploration and evaluation expenditures are translated using the average rate of exchange during the financial statement periods, except for depreciation and amortization, which are translated at historic rates. Foreign exchange gains and losses resulting from the translation of transactions and balances denominated in foreign currencies are included in the statement of operations and comprehensive income (loss).

##### **Cash and cash equivalents**

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality money market investments and certificates of deposit with investment terms of less than three months at acquisition. The majority of the Company's cash and cash equivalents are held in banks in Bermuda, Canada and Colombia. As at December 31, 2011, December 31, 2010 and January 1, 2010, the cash and cash equivalents balance was composed entirely of cash.

##### **Financial instruments recognition, measurement, disclosure and presentation**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are classified into one of these five categories: held-to-maturity investments, loans and receivables, available-for-sale, fair value through profit or loss ("FVTPL") or other financial liabilities. All financial instruments and derivatives are measured on the statement of financial position date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument.

*Financial assets*

Financial assets are classified as FVTPL if they are acquired principally for the purpose of selling or repurchasing in the short-term and are measured at fair value with unrealized gains and losses recognized through operations. The Company's marketable securities are classified as FVTPL.

Financial assets are classified as loans-and-receivables and held-to-maturity if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially measured at the amount expected to be received, less a discount, when material, to reduce the loans and receivables to fair value. Subsequently, the assets are measured at amortized cost using the effective interest method less a provision for impairment. The Company's cash and cash equivalents, restricted cash, trade and other receivables are classified as loans-and-receivables and held-to-maturity.

Financial assets are classified as available-for-sale if they are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently measured at fair value with unrealized gains and losses from remeasurement recognized in other comprehensive income (loss) except exchange gains and losses on translation of debt securities. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are transferred from other comprehensive income (loss) to net income (loss) within the statement of operations and comprehensive income (loss). At December 31, 2011 the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

*Financial liabilities*

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of operations and comprehensive income (loss).

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in the statement of operations and comprehensive income (loss) in the period in which they arise. The net gain or loss recognized in the statement of operations and comprehensive income (loss) excludes any interest paid on the financial liabilities.

*Derivatives*

Derivative assets and liabilities include derivative financial instruments that do not qualify as hedges, or are not designated as hedges and are classified as FVTPL. The Company's Canadian dollar-denominated warrants are classified as derivatives.

*Impairment of financial assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment exists include:

- (i) Significant financial difficulty of the obligor;
- (ii) Delinquencies in interest or principal payments;
- (iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganization; and
- (iv) Significant decline or prolonged loss in value.

If such evidence exists, the Company recognizes an impairment loss as follows:

(i) Assets carried at amortized cost

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment either directly or indirectly through the use of an allowance account. The amount of the loss is recognized in the statement of operations and comprehensive income (loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of operations and comprehensive income (loss).

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in the statement of operations and comprehensive income (loss) when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

(ii) Available-for-sale

An amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in the statement of operations and comprehensive income (loss), is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of operations and comprehensive income (loss).

*De-recognition of financial assets and financial liabilities*

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in the statement of operations and comprehensive income (loss).

For financial liabilities, de-recognition occurs when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in the statement of operations and comprehensive income (loss).

*Offsetting of financial instruments*

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

*Fair value of financial instruments*

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

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

**Intangible assets**

Intangible assets, comprised of computer software, acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives of three years and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in statement of operations and comprehensive income (loss) in the year in which the expenditure is incurred.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of operations and comprehensive income (loss) when the asset is de-recognized.

**Property, plant and equipment**

Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with

bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of major overhauls of parts of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of operations and comprehensive income (loss) as incurred.

Property, plant and equipment are depreciated over the estimated useful lives of the assets using the straight-line or units-of-production method, as appropriate, as follows:

Office equipment	5 to 10 years
Computer equipment	5 years
Vehicles	5 years
Buildings	20 years
Mining and plant equipment	10 years or units-of-production when in commercial production
Mine development costs	Units-of-production when available for use
Leasehold improvements	Lease term
Land	Not depreciated

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

#### **Impairment of property, plant, equipment and intangible assets**

Property, plant and equipment and finite life intangible assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset's recoverable amount is the higher of 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 which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in operations. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been

recognized. Any subsequent reversal of an impairment loss is recognized in operations.

**Exploration and evaluation (“E&E”) costs**

Under IFRS 6, Exploration for and Evaluation of Mineral Resources, the Company has elected to continue with its accounting policy under Canadian GAAP.

Exploration and evaluation costs are those costs required to find a mineral property and determine technical feasibility and commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources are commercially viable. Costs incurred before the Company has obtained the legal right to explore an area are recognized in the statement of operations and comprehensive income (loss).

E&E costs relating to the acquisition of, exploration for and development of mineral properties are capitalized and include, but are not restricted to: drilling, trenching, sampling, surveying and gathering exploration data; calculation and definition of mineral resource; test work on geology, metallurgy, mining, geotechnical and geophysical; and conducting geological, geophysical, engineering, environmental, marketing and financial studies.

All pre-production and bulk sampling revenues are credited against the capitalized expenditures. Option payments received are credited to the related exploration and evaluation asset. Option payments received in excess of amounts capitalized are recognized in the statement of operations and comprehensive income (loss).

Administration costs that do not relate directly to specific exploration activity for capitalized projects are expensed as incurred.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Indicators of impairment include, but are not limited to:

- (a) the period for which the right to explore is less than one year;
- (b) further exploration expenditures are not anticipated;
- (c) a decision to discontinue activities in a specific area; and
- (d) the existence of sufficient data indicating that the carrying amount of an exploration and evaluation asset is unlikely to be recovered from the development or sale of the asset.

Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration and evaluation assets are not expected to be recovered, they are charged to operations.

Capitalized exploration and evaluation costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to mine development costs within property, plant and equipment. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves and/or a decision to commence construction of a mine. However, this determination may be impacted by management’s assessment of certain modifying factors including: legal, environmental, social and governmental factors. All subsequent expenditure on the construction,

installation or completion of infrastructure facilities is capitalized within mine development costs.

Upon the commencement of commercial production, capitalized costs will be transferred to the relevant asset classes within property, plant and equipment and charged to operations on a unit-of-production basis. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, future production or proceeds of disposition.

#### *Business combinations and asset purchases*

The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase. These assets are recognized at fair value.

### **Provisions**

#### *General*

Provisions are recognized when:

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

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations and comprehensive income (loss). If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

#### *Rehabilitation provision*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes study and analyses of known and potentially affected areas, dismantling and removing infrastructures and operating facilities, rehabilitating mines, tailings dams and waste dumps, closure of tunnel entry points, plant and waste sites, management and adequate disposal of underground waters from the tunnels, restoration, reclamation and re-vegetation of affected areas and post-closure monitoring.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production. Over time, the discounted liability is increased for the change in present value based on the risk-free pre-tax discount rate in Colombia. The periodic unwinding of the discount is recognized in the statement of operations and

comprehensive income (loss). Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of operations and comprehensive income (loss).

#### **Convertible debt instruments**

The Company's convertible debt was made up of the underlying debt and an embedded derivative component. The conversion option was considered an embedded derivative and was measured at fair value on initial recognition. The underlying debt component of the instruments was recorded as the difference between the proceeds of the convertible debt and the fair value of the derivative liability. Subsequent to initial recognition, the derivative liability component was recorded at fair value at each reporting period with changes in fair value being recognized in the statement of operations and comprehensive income (loss). The carrying value of the underlying debt component was accreted to the original face value of the instruments, over the term of the convertible debt instrument, using the effective interest method. Upon conversion, any gain or loss arising from extinguishment of the debt was recorded in the statement of operations and comprehensive income (loss).

#### **Canadian dollar-denominated warrants**

The Company's Canadian dollar-denominated warrant instruments are classified as derivative financial liabilities and measured at fair value until the instrument is extinguished or exercised (Note 14). Fair value is determined based on quoted market prices for the warrants. If quoted market prices are not available, fair value is calculated using the Black-Scholes option pricing model. Any gain or loss arising from the revaluation of the Canadian dollar-denominated warrants is recognized in the statement of operations and comprehensive income (loss).

#### **Warrants and broker warrants reserve**

The Company's warrant and broker warrant instruments are classified as equity and measured at fair value on the date of issue (Note 21). If quoted market prices are not available, fair value is calculated using the Black-Scholes option pricing model. Subsequent to issue, the warrants and broker warrants are not revalued.

#### **Income tax**

Income tax is comprised of current and deferred tax. Income tax is recognized in the statement of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible

temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Deferred income tax assets and liabilities are presented as non-current.

### **Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 22.

The fair value determined at the grant date of the equity-settled share-based payments is determined using the Black-Scholes option pricing model and expensed on a graded vesting method of amortization over the period during which the employee becomes unconditionally entitled to exercise these equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and share premium reserve. The related share-based payment reserve is transferred to share premium reserve. Upon expiry, the recorded value is transferred to deficit.

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

### **Share capital**

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

### **Revenue recognition**

Revenue from gold bullion sales, including pre-production and bulk sampling revenues, is recognized when the significant risks and rewards of ownership have been transferred to the counterparty and the selling prices have been agreed or can be reasonably estimated.

### **Interest revenue**

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

### **Comprehensive income**

Comprehensive income includes both net earnings and other comprehensive income ("OCI"). OCI includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income. Cumulative changes in OCI are included in accumulated OCI which is presented as a category in shareholders' equity. For the years ended December 31, 2011 and 2010, the comprehensive income (loss) equals net income (loss).

### **Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to the equity holders of the Company by the weighted-average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated by adjusting the weighted-average number of common shares outstanding for dilutive instruments. The number of shares with respect to options, warrants and similar instruments is computed using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average share price for the period with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The Company's potential dilutive common shares comprise stock options, Canadian-dollar denominated warrants, warrants and broker warrants. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

## 5. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. Management anticipates that these standards will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of their adoption.

- (i) IFRS 9, *Financial Instruments* ("IFRS 9"), was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement* ("IAS 39"), for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment. However, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carry forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in OCI.

- (ii) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27").
- (iii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- (iv) IFRS 13, *Fair Value Measurement* ("IFRS 13"), is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

- (v) There have been amendments to existing standards, including IAS 27 and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- (vi) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- (vii) IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- (viii) IAS 12, *Income Taxes* ("IAS 12"), was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* ("SIC 21"), will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

## 6. AMALGAMATION

On March 30, 2010, Continental Gold Limited and Cronus completed an amalgamation (the "Amalgamation") of the two companies resulting in the creation of an amalgamated entity to continue operations under the name of Continental Gold Limited (the "Company"). Under the terms of the amalgamation agreement, the shareholders of the original Continental Gold Limited exchanged 2.6973 shares for receipt of one share of the Company and the shareholders of Cronus exchanged 2.35712 shares of Cronus for receipt of one share of the Company.

On April 19, 2010, pursuant to the closing of the Amalgamation, the Company's common shares were accepted for listing and began trading on the TSX under the symbol "CNL".

As a result of the transaction, the former shareholders of the original Continental Gold Limited owned in excess of 50% of the outstanding shares of the Company. In accordance with IFRS 3, *Business Combinations* ("IFRS 3"), the substance of the transaction is a reverse acquisition of a non-operating company. The transaction does not constitute a business combination as Cronus did not meet the definition of a

business under the standard. As a result, the transaction is accounted for as a capital transaction with the original Continental Gold Limited being identified as the acquirer and the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of the original Continental Gold Limited and comparative figures presented in the financial statements after the reverse acquisition are those of the original Continental Gold Limited.

The consideration paid by the Company is as follows:

(in 000's of U.S. dollars)	<b>Note</b>	<b>\$</b>
Issuance of 6,500,008 common shares	20(b)(iii)	<b>8,515</b>
Conversion of Cronus warrants	14 (d)	<b>1,154</b>
Conversion of Cronus options	22(c)	<b>314</b>
		<b>9,983</b>

In accordance with IFRS 2, *Share-Based Payments* ("IFRS 2"), any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of Cronus is recognized in the statement of operations and comprehensive income (loss). As the estimated fair values of the net assets acquired from Cronus were in a net deficit position, the total of the net deficit amount and the consideration paid by the Company has been charged to the statement operations and comprehensive income (loss).

Based on the statement of financial position of Cronus at the time of the transaction, the net liabilities at estimated fair values that were acquired by the Company were in a deficit position and the resulting charge to the statement of operations and comprehensive income (loss) is as follows:

(in 000's of U.S. dollars)	<b>\$</b>
Net assets (liabilities) acquired:	
Cash	103
Non-cash working capital (deficiency)	(342)
Consideration	(9,983)
Charge to operations	(10,222)

## **7. OPERATING SEGMENTS**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's operations comprise a single reporting operating segment engaged in mineral exploration in Colombia.

*Geographical information*

The Company operates in three principal geographical areas – Bermuda, Canada and Colombia. Geographical segmentation of the Company’s capital assets is as follows:

<b>December 31, 2011</b> (in 000's of U.S. dollars)	<b>Canada</b>	<b>Bermuda</b>	<b>Colombia</b>	<b>Total</b>
	\$	\$	\$	\$
Cash and cash equivalents	<b>75,745</b>	<b>6,575</b>	<b>1,084</b>	<b>83,404</b>
Exploration and evaluation assets	-	-	<b>83,521</b>	<b>83,521</b>
Total assets	<b>77,917</b>	<b>6,575</b>	<b>93,096</b>	<b>177,588</b>
Total liabilities	<b>7,583</b>	<b>11,724</b>	<b>2,477</b>	<b>21,784</b>
Net income (loss)	<b>22,707</b>	<b>1,062</b>	<b>(5,565)</b>	<b>18,204</b>
Capital expenditures	<b>2,005</b>	-	<b>25,645</b>	<b>27,650</b>

December 31, 2010 (in 000's of U.S. dollars)	Canada	Bermuda	Colombia	Total
	\$	\$	\$	\$
Cash and cash equivalents	95,088	69	2,051	97,208
Exploration and evaluation assets	-	-	54,809	54,809
Total assets	97,717	210	61,209	159,136
Total liabilities	90,042	14,648	1,962	106,652
Net loss	114,236	1,959	2,866	119,061
Capital expenditures	216	-	13,321	13,537

January 1, 2010 (in 000's of U.S. dollars)	Canada	Bermuda	Colombia	Total
	\$	\$	\$	\$
Cash and cash equivalents	-	1,397	207	1,604
Exploration and evaluation assets	-	-	44,673	44,673
Total assets	-	1,416	47,421	48,837
Total liabilities	-	17,140	480	17,620

**8. RESTRICTED CASH AND MARKETABLE SECURITIES**

(a) **Restricted Cash**

Restricted cash includes \$64,000 (2010 – \$25,000; January 1, 2010 – \$nil) held as security against the corporate credit cards by the Company's bank, pledged letters of credit in the amount of \$25,000 (2010 – \$88,000; January 1, 2010 – \$83,000) to support license and insurance requirements in Colombia and \$nil (2010 – \$192,000; January 1, 2010 – \$nil) to support a major drilling contract.

(b) **Marketable Securities**

Marketable securities consisted of the following as at December 31, 2011:

Security name	Security description	December 31, 2011		December 31, 2010	
		Cost (\$000's)	Fair Value (\$000's)	Cost (\$000's)	Fair Value (\$000's)
Waymar Resources Ltd.	1,200,000 common shares	490	448	426	703
Waymar Resources Ltd.	500,000 warrants	154	38	154	189
		<b>644</b>	<b>486</b>	580	892

There were no marketable securities held on January 1, 2010.

Marketable securities were acquired as part of the sale of parts of the Anza property during 2010 and option payments received for the remaining property (Note 12(a)). The common shares are classified as fair value through profit and loss and are recorded at fair value using the bid price as at December 31, 2011. The share purchase warrants have an exercise price of C\$0.75 per share to purchase 500,000 shares with an expiry date of June 29, 2012. The share purchase warrants are valued using a Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy. The following are the assumptions used in determining fair value:

	December 31, 2011	December 31, 2010
Expected dividend yield	nil	nil
Expected volatility	144.16%	138.37%
Risk-free interest rate	0.97%	1.66%
Expected life	0.5 years	1.5 years

**9. RECEIVABLES AND PREPAID EXPENSES**

As at (in 000's of U.S. dollars)	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Proceeds receivable (a)	357	789	-
Accounts receivable	674	678	232
Prepaid expenses	123	390	-
	<b>1,154</b>	1,857	232
Long-term portion of receivables (a)	-	(623)	-
	<b>1,154</b>	1,234	232

(a) **Proceeds receivable**

The receivable represents the remaining balance of \$357,000 (2010-\$1,200,000) from the sale of a property contained within its Zaragoza property (Note 12(i)) in 2010.

The balance of the receivable will be collected from 15% of the gross sales of gold production from the property with minimum annual payments of \$200,000. At December 31, 2011, management estimates that the remaining receivable will be collected in 2012. At December 31, 2010, management estimated that the receivable would be collected over six years with annual payments of \$200,000. These payments have been discounted using the discount rate as of December 31, 2011 of 12% (2010 - 13%). During 2011, the Company received \$817,000 (2010 - \$nil) from the purchaser.

**10. PREPAIDS AND ADVANCES**

As at (in \$000's of U.S. dollars)	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Prepaid taxes (a)	-	-	160
Prepaid exploration and evaluation costs (b)	<b>309</b>	419	195
	<b>309</b>	419	355

(a) **Prepaid taxes**

Prepaid taxes are refundable value added taxes paid and applied against other local payroll and withholding taxes payable. During 2010, the Company began to separately apply for and receive refunds for value added taxes paid on supplies and services and to pay for local payroll and withholding taxes payable.

(b) **Prepaid exploration and evaluation costs**

Prepaid exploration and evaluation costs represent advances for exploration costs and related equipment that will be capitalized when incurred.

## 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

<b>Cost</b> (in 000's U.S. Dollars)	As at January 1, 2010	Additions	Disposals or write- downs	As at December 31, 2010	Additions	Disposals or write- downs	As at December 31, 2011
	\$	\$	\$	\$	\$	\$	\$
Office equipment	77	231	(12)	296	626	(42)	880
Computer equipment	83	167	(7)	243	346	(6)	583
Vehicles	164	236	(38)	362	172	(75)	459
Exploration equipment	-	30	-	30	9	-	39
Mining and plant equipment	918	827	(40)	1,705	370	(284)	1,791
Mine development costs	537	-	-	537	199	-	736
Buildings	-	193	-	193	257	-	450
Leaseholds improvements	-	216	-	216	495	(70)	641
Land	230	-	-	230	978	-	1,208
<b>Total</b>	<b>2,009</b>	<b>1,900</b>	<b>(97)</b>	<b>3,812</b>	<b>3,452</b>	<b>(477)</b>	<b>6,787</b>

<b>Accumulated Depreciation</b> (in 000's U.S. Dollars)	As at January 1, 2010	Depreci- ation	Disposals or write- downs	As at December 31, 2010	Depreci- ation	Disposals or write- downs	As at December 31, 2011
	\$	\$	\$	\$	\$	\$	\$
Office equipment	19	69	(7)	81	141	-	222
Computer equipment	32	49	(4)	77	95	(4)	168
Vehicles	60	45	(19)	86	77	(37)	126
Exploration equipment	-	8	-	8	3	-	11
Mining and plant equipment	35	72	(3)	104	239	(5)	338
Mine development costs	-	-	-	-	-	-	-
Buildings	-	-	-	-	12	-	12
Leaseholds improvements	-	-	-	-	99	-	99
Land	-	-	-	-	-	-	-
<b>Total</b>	<b>146</b>	<b>243</b>	<b>(33)</b>	<b>356</b>	<b>666</b>	<b>(46)</b>	<b>976</b>

Depreciation of \$376,000 (2010 - \$81,000) is included in depreciation and amortization in the statement of operations and comprehensive income (loss) and amortization of \$290,000 (2010 - \$162,000) is capitalized in exploration and evaluation assets.

Net book value (in 000's U.S. Dollars)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
	\$	\$	\$
Office equipment	658	215	58
Computer equipment	415	166	51
Vehicles	333	276	104
Exploration equipment	28	22	-
Mining and plant equipment	1,453	1,601	883
Mine development costs	736	537	537
Buildings	438	193	-
Leasehold improvements	542	216	-
Land	1,208	230	230
<b>Total</b>	<b>5,811</b>	<b>3,456</b>	<b>1,863</b>

## 12. EXPLORATION AND EVALUATION ASSETS

(in 000's of U.S. dollars)	Balance December 31, 2010	Additions	Proceeds from Options and Recoveries	Disposals or Write- downs	Balance December 31, 2011
	\$	\$	\$	\$	\$
Anza (a)	105	6	(106)	-	5
Arenosa (b)	744	9	-	(753)	-
Berlin (c)	13,724	390	-	-	14,114
Buriticá(d)	29,986	38,629	(6,017)	-	62,598
Dojura (e)	1,373	42	(150)	-	1,265
Dominical (f)	2,861	2,088	-	-	4,949
Santander (h)	531	59	-	-	590
Zaragoza (i)	5,485	318	-	(5,803)	-
<b>Total</b>	<b>54,809</b>	<b>41,541</b>	<b>(6,273)</b>	<b>(6,556)</b>	<b>83,521</b>

(in 000's of U.S. dollars)	Balance January 1, 2010	Additions	Proceeds from Options and Recoveries	Disposals or Write- downs	December 31, 2010
	\$	\$	\$	\$	\$
Anza (a)	893	144	(105)	(827)	105
Arenosa (b)	584	160	-	-	744
Berlin (c)	12,454	1,270	-	-	13,724
Buriticá (d)	17,780	18,545	(6,068)	(271)	29,986
Dojura (e)	1,380	-	(7)	-	1,373
Dominical (f)	2,758	103	-	-	2,861
Lunareja (g)	1,173	-	-	(1,173)	-
Santander (h)	429	102	-	-	531
Zaragoza (i)	7,222	61	-	(1,798)	5,485
<b>Total</b>	<b>44,673</b>	<b>20,385</b>	<b>(6,180)</b>	<b>(4,069)</b>	<b>54,809</b>

### (a) Anza Property

The Company and five other parties (the "Optionors") entered into an option agreement dated May 20, 2010 to option a contiguous group of properties (the "Properties"). The Company has included a portion of its Anza property in the Properties. The Company is entitled to receive 25% of all consideration flowing to the Optionors pursuant to the option agreement and the letter of intent. Upon signing of the letter of intent on February 19, 2010, a non-refundable fee of \$50,000 was paid to the Optionors, \$12,500 of which was

paid to the Company. In order to earn a 100% interest in the Properties, the option holder must annually make cash payments and issue common shares (the "Shares") to the Optionors. Upon the signing of the option agreement, the option holder is required to make annual payments of cash and shares to the Optionors and incur a total of \$4,000,000 of exploration expenditures, minimum, over four years on the Properties. The following is a summary of the required payments and minimum exploration expenditures to be paid and incurred by the option holder by the following dates:

	Expenditures \$(000's)	Payments to Optionors		Company Share of Payments to Optionors	
		\$(000's)	Shares (000's)	\$(000's)	Shares (000's)
June 29, 2010	-	250	300	63	75
June 29, 2011	500	500	500	125	125
June 29, 2012	1,500	1,000	1,000	250	250
June 29, 2013	2,000	2,000	2,000	500	500

On June 29, 2011 and 2010, the Company received its share of option payments pursuant to the terms of the option agreement. The 125,000 shares received in 2011 were valued at \$64,000 (2010 - 75,000 shares valued at \$34,000). During 2011, the option payments received exceeded the net book value of the property on the date of receipt. As a result, the excess was recognized in other income on the statement of operations and comprehensive income (loss). Subsequent expenditures continue to be capitalized according to the Company's accounting policy for exploration and evaluation assets.

In addition, the Optionors will maintain a 2% net smelter royalty in the Properties. Additionally, the option holder will have the option to purchase half of the net smelter royalty from the Optionors at a cost of \$1,000,000. These amounts will be recognized as monies are received.

The option holder also entered into a definitive acquisition agreement dated May 21, 2010 with the Company to acquire a 100% legal and beneficial interest in certain other parts of the Anza property. As consideration, the Company received 1,000,000 common shares of the option holder (valued \$396,000) and 500,000 share purchase warrants (valued \$154,000) to purchase 500,000 common shares of the option holder at an exercise price of C\$0.75 per Share. The share purchase warrants have an expiry date of June 29, 2012. The loss on sale of the properties was \$277,000.

(b) **Arenosa Property**

On July 10, 2009 the Company entered into a five-year mining agreement with an arm's length party. The contract was cancelled in the first quarter of 2011 as no work was done on the property during the twelve months ended December 31, 2010.

On October 27, 2011, The Company completed a transaction whereby the remaining licences for the Arenosa and Zaragoza properties were transferred to Minerale Otu S.A.S ("OTU") in exchange for a 25% equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU) (Note 13).

The remaining book value on October 27, 2011 of \$753,000 for the Arenosa property was transferred to investment in associate and along, with the transfer of the Zaragoza property, a loss of \$4,100,000 was recorded on the transfer.

(c) **Berlin Property**

On January 21, 2010, the Company entered into a purchase agreement to purchase surface rights over 15 concessions in and around the Company's Berlin property. The total purchase price was COP\$1,200,000,000 or approximately \$630,000. An initial payment of COP\$150,000,000 (\$75,000) was made by the Company on January 21, 2010. A second payment of COP\$200,000,000 (\$102,000) was made by the Company on April 15, 2010 and the final payment of COP\$850,000,000 (\$436,000) was paid in 2011.

(d) **Buriticá Property**

On May 30, 2008, the Company entered into an option agreement to acquire a mining permit to land contiguous to the Buriticá project from an arm's length party. The total purchase price was \$1,900,000, payable, in four installments - \$100,000 (paid on May 30, 2008); \$200,000 (paid on May 28, 2009); \$500,000 (paid on May 30, 2010) and \$1,100,000 (paid on March 22, 2011). As at December 31, 2011, a liability of \$nil (December 31, 2010 - \$1,100,000; January 1, 2010 - \$nil) was included in accounts payable and accrued liabilities based on the Company's assessment of the property at each reporting date.

On May 5, 2011, the Company acquired property from the Chairman of the Company ("the Chairman") (Note 23(a)) of which \$4,684,000 of the purchase cost was attributed and allocated to Buriticá based on the pro rata share of hectares acquired.

Gold concentrate inventory of \$nil (December 31, 2010 - \$2,000; January 1, 2010 - \$84,000) is included in mineral properties and is carried at the lower of cost and net realizable value. Inventory is recorded at cost as the Company capitalizes its pre-production revenues and costs. During the years ended December 31, 2011 and 2010, no amounts have been expensed in the statement of operations and comprehensive income (loss).

Gold sales from pre-production and bulk sampling revenues of \$6,017,000 (2010 - \$6,068,000) were credited against the capitalized expenditures.

(e) **Dojura Property**

The Company entered into an assignment agreement with a company controlled by the Chairman whereby the Company was assigned an option agreement with an unrelated third party, dated October 4, 2006, in respect of the Dojura property.

The option holder is required to incur the following expenditures and payments from the date the option holder begins exploration in order to earn a 51% interest in the project:

(in 000's of U.S. dollars)	Expenditures	Payments to Company
	\$	\$
First 12-month period; first anniversary – received January 2011	450	150
Second 12-month period; second anniversary – received January 2012	750	250
Third 12-month period; third anniversary	1,000	500
Fourth, fifth and sixth anniversaries (i)	–	400
Sixth anniversary	–	2,500

Any payments made by the option holder exceeding the requirements in the first and second twelve month periods shall carry forward to the third twelve-month period.

In addition, the option holder is required to incur the following payments to the Company to earn an additional 24% in the project:

- (i) After the third anniversary of commencement of exploration, semi-annual payments of \$200,000 to the Company over a maximum 36-month period ending six years after the date of commencement of exploration or at the time a feasibility study is completed to the satisfaction of the option holder, whichever first occurs.
- (ii) On the sixth anniversary of commencement of exploration or the date of the feasibility study, whichever first occurs, a final payment to the Company in the amount of \$2,500,000.

The related party is entitled to 25% of all cash payments received by the Company with regards to the Dojura option agreement.

The Company received payments of \$100,000, \$150,000 and \$250,000 on January 15 of 2010, 2011 and 2012, respectively, from the option holder with regard to the Dojura project. Work has halted on the Dojura project on a partial force majeure basis until such time as security conditions in the area improve. However, the Company has initiated discussions with the option holder to determine the suitability for work thereon to resume. Until that time, the option holder has paid and shall continue to pay any payments required to keep the Dojura project in good standing.

(f) **Dominical Property**

On May 5, 2011, the Company acquired property from the Chairman (Note 23(a)) of which \$1,545,000 of the purchase cost has been allocated to the Dominical project based on the pro rata share of hectares acquired.

(g) **Lunareja Property**

The Lunareja property was written down to zero during the year ended December 31, 2010. Subsequent expenditures are recorded as exploration expense.

(h) **Santander Property**

The Santander project was initially acquired in 2007, upon incorporation of the Company, from a company controlled by the Chairman and is located 35 kilometres northeast of Bucaramanga in the California Mining District in northeastern Colombia. No significant exploration activities were undertaken on the property during 2011 and 2010.

(i) **Zaragoza Property**

On April 12, 2010, the Company completed the sale of a property contained within its Zaragoza property pursuant to a letter of intent dated February 3, 2009 for aggregate proceeds of \$1,500,000. The loss on sale of the properties was \$729,000.

The Company received a deposit of \$100,000 on the execution of the letter of intent. In addition, the Company offset \$200,000 against the receivable balance for a mill received from the purchaser. The remaining balance was recorded as a long-term receivable by the Company (Note 9(a)).

On October 27, 2011, the Company completed a transaction whereby the remaining licences for the Arenosa and Zaragoza properties were transferred to OTU in exchange for a 25% equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU) (Note 13).

The remaining book value on October 27, 2011 of \$5,803,000 for the Zaragoza property was transferred to investment in associate and along with the transfer of the Arenosa property, a loss of \$4,100,000 was recorded on the transfer.

(j) **Properties**

The Company has an option to acquire certain Mineral Rights from a company controlled by the Chairman pursuant to an option agreement between the Company and the related party dated January 16, 2008 and expiring September 7, 2012 (Note 23(k)).

### 13. INVESTMENT IN ASSOCIATE

Investment in associate consists of the following:

For the year ended (in 000's of U.S. Dollars)	December 31, 2011
	\$
<b>As at January 1</b>	-
Initial investment in associate	2,456
Additional investment	70
Share of net loss	-
<b>Closing Balance at December 31</b>	<b>2,526</b>

As part of management's plan to dispose of the remaining licences held within the Arenosa and Zaragoza properties, the Company completed a transaction on October 27, 2011, whereby exploration and evaluation assets were transferred to OTU, a Colombian company controlled by the Chairman, in exchange for an equity interest in OTU. The details of the transaction are as follows:

- (a) The Company transferred property covering the remaining licences for the Arenosa and Zaragoza properties with a book value of \$6,556,000.
- (b) Prior to the transfer, OTU held mineral properties within the same vicinity of the Company's Arenosa and Zaragoza properties.
- (c) Equity interest issued by OTU resulted in the Company owning 25% of OTU, and the remaining 75% owned by a company controlled by the Chairman (Note 23(c)) (representing the approximate proportion of hectares transferred by each company to OTU). The estimated fair value of the equity interest was determined as \$2,456,000, resulting in a loss recorded on disposal of the exploration properties of \$4,100,000.
- (d) The shareholders of OTU are responsible for proportionately funding its activities based on the shareholder's interest.
- (e) A company controlled by the Chairman will manage the activities of OTU.
- (f) The Company and the related party have engaged in the marketing of OTU with the objective to divest all or a portion of their equity interest in OTU to unrelated third parties.

Upon transfer of the assets to OTU, the Company classified its equity interest in OTU as an investment in associate.

#### 14. CANADIAN DOLLAR-DENOMINATED WARRANTS

The following represents warrants denominated in Canadian dollars and classified as derivative financial liabilities:

	December 31, 2011		December 31, 2010	
	Number of Warrants	Fair Value \$(000's)	Number of Warrants	Black-Scholes Value \$(000's)
Balance, January 1	13,005,747	90,074	-	-
Issued (a)	-	-	2,029,135	822
Issued (b)	110,209	770	10,143,959	4,557
Issued (c)	252,000	686	6,000,000	19,398
Conversion of Cronus warrants (d)	-	-	1,889,488	1,154
Exercised	(7,223,949)	(50,885)	(7,004,597)	(34,004)
Expired	(7)	-	(52,238)	-
Fair value revaluation of liability	-	(33,999)	-	98,147
<b>Balance, December 31</b>	<b>6,144,000</b>	<b>6,646</b>	13,005,747	90,074
<b>Current portion</b>	<b>6,144,000</b>	<b>6,646</b>	7,005,747	55,865
<b>Non-current portion</b>	<b>-</b>	<b>-</b>	6,000,000	34,209

No Canadian dollar-denominated warrants were outstanding as at January 1, 2010.

The following are the Canadian dollar-denominated warrants outstanding:

Expiry Date	Exercise Price	December 31, 2011		December 31, 2010	
		Number of Warrants	Fair Value \$(000's)	Number of Warrants	Black-Scholes Value \$(000's)
February 5, 2011 (d)	0.35	-	-	74,243	720
March 30, 2011 (b)	2.25	-	-	6,242,100	48,700
April 21, 2011 (d)	0.35	-	-	270,459	2,625
July 27, 2011 (d)	0.94	-	-	90,154	822
August 5, 2011 (d)	0.94	-	-	328,791	2,998
September 16, 2012 (c)	7.50	6,144,000	6,646	6,000,000	34,209
		<b>6,144,000</b>	<b>6,646</b>	13,005,747	90,074

- (a) Pursuant to the amalgamation (Note 6), 2,029,135 warrants were issued as part of the conversion of the convertible debenture (Note 20(b)(i)). Each warrant has an expiry date of March 30, 2012 and an exercise price of C\$1.75 per common share.

The issue date fair value of the 2,029,135 warrants was estimated at \$822,000. As at December 31, 2010, all such warrants were exercised. For the year ended December 31, 2011, a derivative loss of \$nil (2010 - \$10,105,000) was recognized in the statement of operations and comprehensive income (loss) relating to the revaluation of the warrants outstanding or upon exercise. Fair values were determined using the Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy.

- (b) On March 30, 2010, 9,583,334 warrants and 1,341,667 broker warrants (Note 21(i)) were issued upon conversion of subscription receipts from equity

financings completed on January 28, 2010 and February 11, 2010 (Note 20(b)(ii)). Each full warrant had an exercise price of C\$2.25 and an expiry date of March 31, 2011.

In addition, during the year ended December 31, 2011, 110,209 warrants (2010 – 560,625 warrants) were issued as a result of the exercise of 220,417 broker warrants (2010 – 1,121,250 broker warrants) with the same terms and conditions as the original pool of warrants and are included with the original pool of warrants for revaluation purposes.

The issue date fair value of the original 9,583,334 warrants was estimated at \$2,971,000. The issue date fair value of the additional warrants issued during the year ended December 31, 2011 was estimated at \$770,000 (2010 – \$1,586,000).

As at December 31, 2011, all such warrants were exercised. The fair value of the warrants outstanding as at December 31, 2010 was \$48,700,000.

A derivative gain of \$4,976,000 was recognized in the statement of operations and comprehensive income (loss) for the year ended December 31, 2011 (2010 – loss of \$66,037,000) relating to the revaluation of the warrants outstanding or upon exercise. Fair values were determined using the Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy.

- (c) On September 16, 2010, 6,000,000 warrants and 720,000 broker warrants (Note 21(ii)) were issued upon completion of an equity financing (Note 20(b)(iv)). Each full warrant has an exercise price of C\$7.50 and an expiry date of September 16, 2012. However, in the event that the closing share price of the Company's common shares on the TSX is greater than C\$9.75 per share for a period of 20 consecutive trading days at any time after September 16, 2010, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case, the warrants will expire on the 30<sup>th</sup> day after the date on which such notice is given by the Company. As of December 31, 2011, no such notice has been given by the Company.

In addition, during the year ended December 31, 2011, 252,000 warrants (year ended December 31, 2010 – nil warrants) were issued as a result of the exercise of 504,000 broker warrants (2010 – nil broker warrants) with the same terms and conditions as the original pool of warrants and are included with the original pool of warrants for revaluation purposes.

The issue date fair value of the original 6,000,000 warrants was estimated at \$19,398,000. The issue date fair value of the additional warrants issued during the year ended December 31, 2011 was estimated at \$686,000 (2010 – \$nil).

The fair value of the outstanding warrants on December 31, 2011 was \$6,646,000 (2010 – \$34,209,000), resulting in a derivative gain recognized in the statement of operations and comprehensive income (loss) for the year ended December 31, 2011 of \$33,999,000 (2010 – loss of \$14,811,000).

On January 17, 2011, these warrants began trading on the TSX under the symbol "CNL.WT". As a result, fair value estimates are based on quoted market prices after this date and are therefore classified as level 1 within the fair value hierarchy. Prior to this date, fair values were calculated using the Black-Scholes option pricing model using observable inputs and were therefore classified as level 2 within the fair value hierarchy.

- (d) On March 30, 2010, 4,453,750 warrants of Cronus were exchanged at a rate of 2.35712 Cronus warrants for one warrant of the Company (Notes 6 and 20(b)(iii)). This resulted in the issuance of 1,889,488 warrants of the Company valued at \$1,154,000 on the date of conversion.

As at December 31, 2011, all such warrants were exercised. The fair value of the warrants outstanding as at December 31, 2010 was \$7,165,000. A derivative gain of \$1,070,000 was recognized in the statement of operations and comprehensive income (loss) for the year ended December 31, 2011 (2010 – loss of \$8,780,000) relating to the revaluation of the warrants outstanding or upon exercise. Fair values were determined using the Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy.

- (e) The following is the range of assumptions used to value the above-noted warrants for the years ending December 31, 2011 and 2010:

	2011	2010
Expected dividend yield	nil	nil
Expected volatility	100%	100%
Risk-free interest rate	1.06% to 1.9%	1.23 to 2.01%
Period to expiry on date of exercise or revaluation	0.01 to 0.58 years	0.05 to 1.70 years

## 15. EQUITY TAX LIABILITY

On December 29, 2010, the Colombian Congress passed a law which imposes a 6% equity tax levied on Colombian operations. The Company's equity tax payable for the years 2011 to 2014 is a total of \$1,115,000, payable in eight equal semi-annual instalments.

The amount of equity tax payable is fixed for the four-year term ending in 2014 and is payable regardless of whether subsequent changes to the Company's financial position would result in a reduction or elimination of the equity tax amount during the four-year term. As a result, the Company has recognized the entire amount of the equity tax payable in the statement of financial position and a corresponding expense in the statement of operations and comprehensive income (loss). The amount recognized is calculated by discounting the future equity tax payments by a discount rate of 4.98% at December 31, 2011.

(in 000's of U.S. Dollars)	\$
Equity tax expense	1,115
Payments	(300)
Accretion	24
Foreign exchange	(15)
<b>Balance, December 31, 2011</b>	<b>824</b>
Current, included in accounts payable and accrued liabilities	293
Non-current	531
<b>Balance, December 31, 2011</b>	<b>824</b>

## 16. REHABILITATION PROVISION

The Company's rehabilitation provision is based on management's best estimate of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

(in 000's of U.S. dollars)	2011	2010
	\$	\$
Balance, January 1	215	208
Increase in provision	275	-
Accretion expense	19	7
<b>Balance, December 31</b>	<b>509</b>	215

The Company has estimated its total rehabilitation provision based on an undiscounted future liability of approximately \$577,000 and a risk-free rate of 4.75%. Reclamation is expected to occur during the years 2013 to 2016.

## 17. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 4.

Financial assets and financial liabilities as at December 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

As at December 31, 2011 (in 000's of U.S. Dollars)	Fair Value through profit and loss	Loans and receivables and held- to-maturity	Other financial assets/ (liabilities)	Total
	\$	\$	\$	\$
Cash and cash equivalents	-	83,404	-	83,404
Marketable securities	486	-	-	486
Restricted cash	89	-	-	89
Receivables	-	1,031	-	1,031
Accounts payable and accrued liabilities	-	-	(2,947)	(2,947)
Equity tax liability	-	-	(531)	(531)
Canadian dollar-denominated warrants	-	-	(6,646)	(6,646)
<b>Total</b>	<b>575</b>	<b>84,435</b>	<b>(10,124)</b>	<b>74,886</b>

As at December 31 2010 (in 000's of U.S. Dollars)	Fair Value through profit and loss	Loans and receivables and held-to- maturity	Other financial assets/ (liabilities)	Total
Cash and cash equivalents	\$ -	\$ 97,208	\$ -	\$ 97,208
Marketable securities	892	-	-	892
Restricted cash	305	-	-	305
Receivables	-	1,467	-	1,467
Accounts payable and accrued liabilities and income taxes payable	-	-	(3,812)	(3,812)
Canadian dollar-denominated warrants	-	-	(90,074)	(90,074)
<b>Total</b>	<b>1,197</b>	<b>98,675</b>	<b>(93,886)</b>	<b>5,986</b>

As at January 1, 2010 (in 000's of U.S. Dollars)	Fair Value through profit and loss	Loans and receivables and held-to- maturity	Other financial assets/ (liabilities)	Total
Cash and cash equivalents	\$ -	\$ 1,604	\$ -	\$ 1,604
Restricted cash	83	-	-	83
Receivables	-	232	-	232
Accounts payable and accrued liabilities and income taxes payable	-	-	(1,692)	(1,692)
<b>Total</b>	<b>83</b>	<b>1,836</b>	<b>(1,692)</b>	<b>227</b>

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities and income taxes payable approximate fair value because of the limited term of these instruments.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate and price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Fair Value hierarchy and liquidity risk disclosure:

At January 1, 2010, the Company's had no financial instruments that are carried at fair value.

### Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from its properties. The Company's cash and cash equivalents are held with banks in Colombia, Bermuda and Canada. The Company limits material counterparty credit risk on these assets by dealing with financial institutions with credit ratings of at least A or equivalent, or those which have been otherwise approved. Amounts receivable consist of receivables from unrelated parties. Amounts receivable are current as of December 31, 2011, December 31,

2010 and January 1, 2010. Management believes that the credit risk concentration with respect to amounts receivable is minimal based on the Company's history with these unrelated parties.

### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. The Company has treasury policies designed to support managing of liquidity risk by proactively mitigating exposure through cash management, including forecasting its liquidity requirements with available funds and anticipated cash flows. As at December 31, 2011, the Company had cash and cash equivalents of \$83,404,000 (2010 - \$97,208,000; January 1, 2010 - \$1,604,000) to settle current liabilities of \$2,947,000, excluding the current portion of Canadian dollar-denominated warrants (2010 - \$3,812,000; January 1, 2010 - \$1,692,000). The majority of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has various commitments detailed in Note 27. The Company has begun to examine its options to secure additional sources of funds including public issuances, private placements and the exercise of outstanding warrants and options.

### Market risk

#### Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company has cash balances and no interest-bearing debt. Management believes that interest rate risk is remote as cash investments have maturities of three months or less.

#### Foreign currency risk

Foreign currency risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is the U.S. dollar. The Company conducts some of its operating and investing activities in currencies other than the U.S. dollar. The Company is therefore subject to gains or losses due to fluctuations in these currencies relative to the U.S. dollar.

The Company had the following foreign currency balances

<b>As at December 31, 2011</b>	<b>Foreign Currency</b>	<b>Foreign Balance \$(000's)</b>	<b>\$(000's)</b>
Cash and cash equivalents	COP	2,091,870	1,085
Cash and cash equivalents	CAD	64,426	63,351
Marketable securities	CAD	494	486
Receivables	COP	968,403	502
Receivables	CAD	163	160
Restricted cash	COP	48,008	25
Restricted cash	CAD	65	64
Accounts payable and accrued liabilities	COP	2,206,879	1,144
Accounts payable and accrued liabilities	CAD	900	885
Equity tax liability	COP	1,589,570	824

As at December 31, 2010	Foreign Currency	Foreign Balance \$(000's)	\$(000's)
Cash and cash equivalents	COP	4,111,048	2,051
Cash and cash equivalents	CAD	68,312	68,682
Marketable securities	CAD	887	892
Receivables	COP	454,931	227
Receivables	CAD	443	445
Restricted cash	COP	560,912	280
Restricted cash	CAD	25	25
Accounts payable and accrued liabilities and income taxes payable	COP	3,797,770	1,895
Accounts payable and accrued liabilities	CAD	1,321	1,328

As at January 1, 2010	Foreign Currency	Foreign Balance \$(000's)	\$(000's)
Cash and cash equivalents	COP	427,616	207
Receivables	COP	478,994	232
Restricted cash	COP	171,455	83
Accounts payable and accrued liabilities and income taxes payable	COP	1,178,904	571

*Commodity and equity price risk*

The Company is exposed to price risk with respect to commodity price. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious minerals to determine the appropriate course of action to be taken by the Company.

**Sensitivity analysis**

Based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a year:

- (i) The Company is exposed to foreign currency risk on fluctuations of financial instruments primarily relating to cash and cash equivalents that are denominated in Canadian dollars and Colombian pesos. As at December 31, 2011, had both the Canadian dollar and the Colombian peso strengthened/weakened by 10% against the U.S. dollar with all other variables held constant, the Company's reported net loss for the year ended December 31, 2011 would have been approximately \$6,500,000 lower/higher.
- (ii) Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market of precious metals. As of December 31, 2011, the Company was not a commercial producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## Fair value

Fair market value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy. The levels in the hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

<b>As at December 31, 2011</b> (in 000's of U.S. dollars)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash and cash equivalents	-	83,404	-	83,404
Marketable securities	448	38	-	486
	448	83,442	-	83,890
Canadian dollar-denominated warrants	(6,646)	-	-	(6,646)
	(6,646)	-	-	(6,646)

As at December 31, 2010 (in 000's of U.S. dollars)	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	-	97,208	-	97,208
Marketable securities	703	189	-	892
	703	97,397	-	98,100
Canadian dollar-denominated warrants	-	(90,074)	-	(90,074)
	-	(90,074)	-	(90,074)

As at January 1, 2010 (in 000's of U.S. dollars)	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	-	1,604	-	1,604
Marketable securities	-	-	-	-
	-	1,604	-	1,604

## 18. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which is comprised of share capital, share premium reserve, warrants and broker warrants reserve, share-based payment reserve and deficit which at December 31, 2011 totaled \$155,804,000 (2010 - \$52,484,000; January 1, 2010 - \$31,216,000). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on activities related to its mineral properties. Selected information is frequently provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2011. The Company is not subject to any capital requirements imposed by a regulator or lending institution.

## 19. INCOME TAXES

Income taxes are comprised of:

<b>For the years ended</b> (in 000's of U.S. dollars)	<b>December 31, 2011</b>	December 31, 2010
	\$	\$
Current tax:		
Current tax on profits for the year	<b>209</b>	90
Adjustments in respect of prior years	<b>107</b>	90
	<b>316</b>	180
Deferred tax (recovery):		
Origination and reversal of temporary differences	<b>(1,399)</b>	(381)
	<b>(1,399)</b>	(381)
<b>Income tax expense (recovery)</b>	<b>(1,083)</b>	(201)

The Company is incorporated in Bermuda and it is not subject to income taxes in Bermuda, and as such the losses incurred as a result of corporate expenses in Bermuda will not result in an income tax recovery. Effective March 30, 2010, the Company became resident in Canada and is subject to income taxes at a combined federal and provincial statutory tax rate as at December 31, 2011 of 26.5% (2010 - 31%). The tax on the Company's net income (loss) before tax differs from the amount that would arise using the tax rate applicable to the Company as follows:

For the years ended (in 000's of U.S. dollars)	December 31, 2011	December 31, 2010
	\$	\$
Net income (loss) before taxes	17,121	(119,262)
Expected income tax expense (recovery)	4,537	(36,971)
Foreign tax rate differences	30	3,684
Non-deductible expenses	1,576	1,288
Non-taxable foreign exchange loss (gain)	317	(648)
Non-taxable (gain) loss on Canadian dollar-denominated warrants	(9,010)	30,426
Difference in future tax rates	146	450
Foreign exchange impact on deferred tax liability	222	217
Current year loss not recognized	1,099	1,353
<b>Net income tax recovery</b>	<b>(1,083)</b>	<b>(201)</b>

All deferred tax assets and liabilities are expected to be settled after 12 months. The deferred income tax liability arises from the temporary difference between the tax value and the carrying value of exploration and evaluation assets. The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:

For the year ended December 31, 2011 (in 000's of U.S. dollars)	Property, plant and equipment	Exploration and evaluation assets	Investment in associate	Net deferred income tax (asset) liability
	\$	\$	\$	\$
Balance, January 1	(452)	13,003	-	12,551
Recognized in profit or loss	(456)	(960)	16	(1,400)
<b>Balance, December 31</b>	<b>(908)</b>	<b>12,043</b>	<b>16</b>	<b>11,151</b>

For the year ended December 31, 2010 (in 000's of U.S. dollars)	Property, plant and equipment	Exploration and evaluation assets	Investment in associate	Net deferred income tax (asset) liability
	\$	\$	\$	\$
Balance, January 1	(31)	12,963	-	12,932
Recognized in profit or loss	(421)	40	-	(381)
<b>Balance, December 31</b>	<b>(452)</b>	<b>13,003</b>	<b>-</b>	<b>12,551</b>

As at the periods ended, the Company had not recognized the following temporary differences and tax losses that are available for utilization against taxable income:

As at (in 000's of U.S. dollars)	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Exploration and evaluation assets	5,373	356	-
Property, plant and equipment	16	-	-
Financing fees	1,122	845	-
Receivables	6	133	-
Unrealized loss (gain) on marketable securities	39	(78)	-
Tax losses carried forward utilizable against taxable income	7,090	930	-
	<b>13,646</b>	<b>2,186</b>	<b>-</b>

As at December 31, 2011, the Company had unused tax losses available for carry forward in Canada of \$28,361,000 (2010 - \$10,244,000) that expire in the years 2030 and 2031.

## 20. SHARE CAPITAL

### (a) Authorized

At December 31, 2011, the authorized share capital consisted of 50,000,000,000 common shares with a par value of \$0.000001 and 100,000,000 preferred shares with a par value of \$0.0001, issuable in series. All issued shares are fully paid. No dividends have been paid or declared by the Company since inception.

### (b) Issued

As of December 31, 2011, the issued share capital was 108,145,007. The change in issued share capital for the 2011 and 2010 years were as follows:

	Number of Shares	
	2011	2010
<b>Balance, January 1</b>	<b>98,548,890</b>	43,499,959
Issue of shares – asset purchase (Note 23(a))	<b>495,106</b>	–
Exercise of stock options (Note 22)	<b>1,041,412</b>	1,789,427
Exercise of warrants (Note 14, Note 21(a))	<b>7,335,182</b>	12,442,444
Exercise of broker warrants (Note 21(b))	<b>724,417</b>	1,121,250
Conversion of debenture (i)	–	2,000,017
Shares in lieu of interest (i)	–	29,118
Conversion of subscription receipts (ii)	–	19,166,667
Conversion of Cronus shares (iii)	–	6,500,008
Private placement (iv)	–	12,000,000
<b>Balance, December 31</b>	<b>108,145,007</b>	98,548,890

- (i) On November 27, 2009, the Company issued a convertible debenture in the principal amount of C\$3,000,000 (\$2,850,000), of which C\$647,000 in gross proceeds were received from a director and companies controlled by a director of the Company. The interest coupon on the debenture was equal to the Canadian bank prime lending rate plus 2% and accrued from the issue date to the date of conversion. On March 30, 2010, the debenture was converted into 2,029,135 units of the Company upon completion of the amalgamation between Cronus and Continental Gold.

Pursuant to the amalgamation (Note 6), the principal portion of the debenture was converted into 2,000,017 units of the Company at a conversion price of C\$1.50 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant. Under IFRS, these warrants are classified as Canadian dollar-denominated warrants (Note 14(a)). The debenture holders had the option to receive their accrued interest in cash or in units of the Company. In lieu of a cash interest payment, the Company issued 29,118 units in satisfaction of the accrued interest on the debenture. The units had the same conversion price and terms and conditions as

those units received from the conversion of the principal portion of the debenture.

The convertible debt was classified as a liability prior to conversion.

- (ii) On January 28, 2010 and February 11, 2010, the Company completed an equity financing consisting of the sale of 19,166,667 subscription receipts at a price of C\$1.50 per subscription receipt for gross proceeds of C\$28,750,000 (\$28,201,000). Each subscription receipt converted into one unit which consisted of one common share and one-half of one common share purchase warrant of the amalgamated company on March 30, 2010.

Under IFRS, the warrants are classified as Canadian dollar-denominated warrants (Note 14(b)) and the broker warrants are classified as a component of equity (Note 21(b)(i)).

Share issue costs totaled \$3,296,000, including a cash commission of 7% of gross proceeds of C\$2,013,000 (\$1,974,000) and 1,341,667 broker warrants, valued at \$765,000, to the underwriters. \$2,949,000 of the share issue costs are recognized as a reduction to equity and the remaining \$347,000 was recognized in the statement of operations and comprehensive loss.

- (iii) On March 30, 2010, 15,321,274 shares of Cronus were exchanged at a rate of 2.35712 Cronus shares for one share of the amalgamated entity. This resulted in the issuance of 6,500,008 shares of the Company valued at \$8,515,000.

- (iv) On September 16 2010, the Company completed an equity financing consisting of the sale of 12,000,000 Units at a price of C\$5.70 per Unit for gross proceeds of C\$68,400,000 (\$66,628,000). Each unit consists of one common share and one-half of one common share purchase warrant.

Under IFRS, the warrants are classified as Canadian dollar-denominated warrants (Note 14(c)) and the broker warrants are classified as a component of equity (Note 21(b)(ii)).

Share issue costs totaled \$6,857,000, including a cash commission of 5.25% of gross proceeds of C\$3,591,000 (\$3,498,000) and 720,000 broker warrants, valued at \$2,632,000, to the underwriters. \$4,861,000 of the share issue costs are recognized as a reduction to equity and the remaining \$1,996,000 was recognized in the statement of operations and comprehensive income (loss).

## 21. WARRANTS AND BROKER WARRANTS RESERVE

### (a) Warrants

	2011		2010	
	Number of Warrants	Black-Scholes Value	Number of Warrants	Black-Scholes Value
		\$(000's)		\$(000's)
Balance, January 1	2,409,334	961	7,847,181	3,129
Exercised	(111,222)	(45)	(5,437,847)	(2,168)
<b>Balance, December 31</b>	<b>2,298,112</b>	<b>916</b>	2,409,334	961

The above warrants have an expiry date of March 30, 2012 and an exercise price of \$0.98 per share.

### (b) Broker warrants

	2011		2010	
	Number of Warrants	Black-Scholes Value	Number of Warrants	Black-Scholes Value
		\$(000's)		\$(000's)
Balance, January 1	940,417	2,758	-	-
Issued (i)	-	-	1,341,667	765
Issued (ii)	-	-	720,000	2,632
Exercised	(724,417)	(1,968)	(1,121,250)	(639)
<b>Balance, December 31</b>	<b>216,000</b>	<b>790</b>	940,417	2,758

The following are the broker warrants outstanding:

Expiry Date	Exercise Price	2011		2010	
		Number of Warrants	Black-Scholes Value	Number of Warrants	Black-Scholes Value
	C\$		\$(000's)		\$(000's)
March 30, 2011 (i)	1.47 (C\$1.50)	-	-	220,417	126
September 16, 2012 (ii)	5.55 (C\$5.70)	216,000	790	720,000	2,632
		<b>216,000</b>	<b>790</b>	940,417	2,758

- (i) On March 30, 2010, 1,341,667 broker warrants, exercisable to acquire one unit of the amalgamated company at a price of C\$1.50 for a period of one year, were issued to underwriters upon completion of equity financings for subscription receipts on January 28, 2010 and February 11, 2010 (Note 20(b)(ii)).

Each unit consisted of one common share and one-half of one common share purchase warrant of the amalgamated company. Each full warrant had an exercise price of C\$2.25 (\$2.21) for a period of one year.

The issue date fair value of the 1,341,667 broker warrants was estimated at \$765,000 using the Black-Scholes option pricing model. As at March 31, 2011, all such broker warrants were exercised. Warrants issued upon exercise of broker warrants are fair valued using the Black-Scholes option pricing model and classified as Canadian dollar-denominated warrants (Note 15(b)).

- (ii) On September 16, 2010, 720,000 broker warrants, exercisable to acquire one unit of the Company at a price of C\$5.70 for a period of two years, were issued to underwriters upon completion of an equity financing (Note 20(b)(iv)).

Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant has an exercise price of C\$7.50 (\$7.31) for a period of two years.

The issue date fair value of the 720,000 broker warrants was estimated at \$2,632,000 using the Black-Scholes option pricing model. Warrants issued upon exercise of broker warrants are fair valued using the Black-Scholes option pricing model and classified as Canadian dollar-denominated warrants (Note 14(c)).

- (iii) The following is the weighted average assumptions used to value the above-noted broker warrants issued in 2010:

Expected dividend yield	nil
Expected volatility	100%
Risk-free interest rate	1.51% to 1.63%
Expected life	1 to 2 years

No broker warrants were issued in 2011.

## 22. SHARE-BASED PAYMENTS

Under the Company's stock option plan (the "Plan"), the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding share capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The aggregate number of common shares reserved for issuance granted to any one individual in a 12-month period may not exceed 5% of the total number of shares outstanding. Options granted under the Plan will be for a term not to exceed 10 years.

Movements in share options during the period were as follows:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, January 1 (a)	5,667,196	\$ 1.98	2,113,224	\$ 0.98
Granted <sup>(*)</sup> (b)	2,387,500	8.49	5,214,725	2.18
Conversion of Cronus options (c)	–	–	400,379	0.71
Exercised	(1,041,412)	1.89	(1,789,427)	1.17
Expired/Forfeited	(144,999)	8.10	(271,705)	1.57
<b>Balance, December 31, 2011</b>	<b>6,868,285</b>	<b>4.13</b>	5,667,196	1.98

(\*) The weighted average grant date fair value of stock option grants during the periods ended December 31, 2011 and December 31, 2010 was \$5.20 and \$1.26, respectively.

The following table shows the options outstanding at December 31, 2011:

Range of Price \$	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
\$0.402 - \$2.00	3,473,285	4.00	\$1.33	3,473,285	4.00	\$1.33
\$2.01 - \$4.00	700,000	3.36	\$2.30	700,000	3.36	\$2.30
\$4.01 - \$6.00	170,000	3.67	\$5.58	132,500	3.67	\$5.59
\$6.01 - \$8.00	590,000	4.26	\$7.31	360,000	4.16	\$7.14
\$8.01 - \$10.24	1,935,000	4.29	\$8.71	961,250	4.16	\$8.75
	6,868,285	4.03	\$4.13	5,627,035	3.95	\$3.19

(i) Options outstanding as at January 1, 2010 were granted to officers, directors, employees and consultants of the Company at an exercise price of \$0.98 and a grant date fair value \$1,519,000. On March 30, 2010, these options were converted to 2,113,224 stock options of the Company subsequent to the amalgamation. In addition, vesting of these options were accelerated on March 30, 2010 as part of the terms and conditions of the original option agreements. Of the 2,113,224 stock options, 2,020,539 expire on January 29, 2019 and the remaining 92,685 were forfeited on March 30, 2010. The remaining grant date fair value of \$222,000 relating to the acceleration of vesting of options, net of the reversal of the unvested forfeited options, was expensed on March 30, 2010.

- (ii) The following is a summary of the options granted, the fair values and the assumptions used in the Black-Scholes option pricing formula:

<b>For the years ended</b>	<b>December 31, 2011</b>	December 31, 2010
Number of options granted	<b>2,387,500</b>	5,214,725
Weighted average exercise price (C\$)	<b>8.33</b>	2.23
Weighted average market price (\$)	<b>8.49</b>	2.42
Expected dividend yield	<b>nil</b>	nil
Expected volatility	<b>100%</b>	100%
Weighted average risk-free interest rate	<b>1.82%</b>	2.84%
Forfeiture rate	<b>5.02%</b>	5.00%
Weighted expected life (years)	<b>2.88</b>	2.84
Weighted average grant date fair value (per share)	<b>\$5.20</b>	\$1.26

The options (except for 250,000 granted during the year ended December 31, 2010) have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant and have a five-year term from the date of grant. Of the 5,214,725 stock options granted during the year ended December 31, 2010, 250,000 options were vested immediately with an expiry date of March 30, 2013.

- (iii) On March 30, 2010, 943,750 stock options of Cronus were exchanged at a rate of 2.35712 Cronus stock options for one stock option of the Company. This resulted in the issuance of 400,379 stock options of the Company valued at \$314,000 using the following assumptions in the Black-Scholes option pricing formula:

Weighted average exercise price (C\$)	0.71
Weighted average market price (\$)	1.31
Expected dividend yield	nil
Expected volatility	100%
Weighted average risk-free interest rate	2.92%
Weighted expected life (years)	1.18 years

The \$314,000 grant date fair value of the converted stock options was recognized in the statement of operations and comprehensive income (loss) on the date of conversion (Note 6).

- (iv) The Company recorded share-based payments as follows:

<b>For the years ended</b> (in 000's U.S. Dollars)	Note	<b>December 31, 2011</b>	December 31, 2010
		\$	\$
Share-based payments, included in corporate administration expenses	24	<b>5,913</b>	4,155
Share-based payments included in reverse takeover	7	-	314
Share-based payments capitalised to exploration and evaluation assets		<b>4,265</b>	2,316
		<b>10,178</b>	6,785

### 23. RELATED PARTY TRANSACTIONS

Related parties include management, the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The following related party transactions were conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties):

- (a) On May 5, 2011, the Company acquired from the Chairman of the Company (i) title to mineral concession contracts and rights to mineral applications adjacent to the Buriticá project and (ii) title to concession contracts adjacent to the Dominical project for total consideration of \$6,229,000, including \$2,000,000 in cash and 495,106 common shares of the Company, valued at \$4,229,000.
- (b) During October 2011, the Company acquired, for a nominal amount, additional licenses for properties adjacent to the Buriticá project from a company controlled by the Chairman and reimbursed the company \$0.1 million for prepaid license fees.
- (c) On October 27, 2011, the Company transferred certain exploration and evaluation assets having a total book value of \$6,556,000 to a Colombian company controlled by a director of the Company (OTU), in exchange for a 25 percent equity interest in OTU, representing the approximate proportion of hectares transferred by the Company (Note 13). The estimated fair value of the equity interest received was determined as \$2,456,000, resulting in a loss recorded on disposal of the exploration properties of \$4,100,000.
- (d) During the year ended December 31, 2011, aggregate gold sales to a refinery company, in which a director of the Company has an equity interest and is an officer, amounted to \$6,017,000 (2010 - \$6,068,000) and are reported as a reduction to exploration and evaluation assets on the statement of financial position. As at December 31, 2011, the refinery company owed the Company \$237,000 (2010 - \$nil; January 1, 2010 - \$216,000) which is included in accounts receivable. This amount is unsecured, non-interest bearing with no fixed terms of repayment.
- (e) Effective November 22, 2011, the Company entered into a consulting agreement with a company controlled the Chairman of the Company for \$20,000 per month. Services include site visit security and logistics, technical assistance and assistance with Colombia mining law and processes. As at December 31, 2011, \$25,000 of fees was recognized and included in corporate administration and accounts payable.
- (f) The Company received consulting services from a company controlled by the Chairman during the year ended December 31, 2011 in the amount of \$nil (2010 - \$275,000), which is included in corporate administration. The amount owing by the Company to the related party as at December 31, 2011 is \$nil (2010 - \$nil; January 1, 2010 - \$119,000) which is included in accounts payable and accrued liabilities. In addition, advances to the related party in the amount of \$nil were charged to corporate administration during the year

ended December 31, 2011 (2010 - \$264,000). At December 31, 2011, advances outstanding were \$nil (2010 - \$nil; January 1, 2010 - \$12,000) and included in accounts receivable. This amount is unsecured, noninterest bearing with no fixed terms of repayment.

- (g) During the year ended December 31, 2011, aggregate legal fees included in corporate administration of \$nil (2010 - \$31,000) were charged by a law firm in which a former director of the Company is a partner and are included in the statement of operations and comprehensive income (loss). As at December 31, 2011, included in accounts payable and accrued liabilities are fees amounting to \$nil (2010 - \$nil; January 1, 2010 - \$69,000) payable to this law firm. This amount is unsecured, non-interest bearing with no fixed terms of repayment.
- (h) During the year ended December 31, 2011, aggregate consulting fees included in corporate administration of \$nil (2010 - \$15,000) were charged by a former director of the Company. As at December 31, 2011, included in accounts payable and accrued liabilities are fees amounting to \$nil (2010 - \$nil; January 1, 2010 - \$64,000) payable to this individual. This amount is unsecured, non-interest bearing with no fixed terms of repayment.
- (i) The Company purchased drilling services for the year ended December 31, 2011 from a company with a common director at a cost of \$nil (2010 - \$74,000), which were capitalized to exploration and evaluation assets. As at December 31, 2011, the Company made advance payments for future drilling services of \$nil (December 31, 2010 - \$nil; January 1, 2010 - \$50,000) which is included in prepaid exploration.
- (j) The Company entered into the following equity transactions with officers and directors:
- On January 28, 2010, a director of the Company and companies with an officer who is also a director of the Company purchased 1,596,334 units of the Company for gross proceeds of C\$2,395,000 (\$2,349,000) (Note 20(b)(ii)).
- On February 11, 2010, officers and directors of the Company purchased 593,602 units in the Company for gross proceeds of C\$890,000 (\$873,000) (Note 20(b)(ii)).
- (k) A company controlled by the Chairman controls or is the beneficiary of mineral rights in Colombia (collectively, the "Mineral Rights"), some of which are registered in the mining registry ("Current Mineral Rights"), others for which registration is pending ("Beneficial Mineral Rights") and the remainder of which are applications for mineral rights presented before the competent authority which are currently being processed or applications that will be made up to and including September 7, 2012 ("After Acquired Mineral Rights"). The Company has an option to acquire the Mineral Rights from the company controlled by a director pursuant to an option agreement between the Company and the company controlled by a director dated January 16, 2008. The details of the option agreement are as follows:

- (i) the option agreement expires September 7, 2012;
- (ii) the purchase price for Mineral Rights acquired under the option agreement is based on the market value as negotiated by the parties, or as determined by an independent mutually acceptable expert whose opinion shall be binding, pursuant to the following formula:
  - (a) 25% of the market value plus all other expenses incurred by the company controlled by a director in respect of Current Mineral Rights and Beneficial Mineral Rights; and
  - (b) 100% of the market value in respect of After Acquired Mineral Rights;
- (iii) the purchase price for Mineral Rights acquired under the option agreement may be paid in cash or common shares of the Company as the Company may elect, subject to regulatory approval, and such common shares shall be valued on the basis of a twenty-day weighted average trading price formula;
- (iv) if the Mineral Rights acquired under the option agreement are subject to a joint venture with a third party, the company controlled by a director is entitled to 25% of the benefits derived by the Company from such joint venture for the duration of the joint venture;
- (v) if the Company elects to acquire Mineral Rights under the option agreement but does not complete such acquisition, such Mineral Rights are no longer subject to the option agreement and may not be acquired by the Company in the future;
- (vi) The company controlled by a director retains the right to explore, exploit, recover and commercialize non-metallic elements that may occur in the Mineral Rights, with the result that the Company has no right to non-metallic metals and should non-metallic metals be found on any property acquired by the Company pursuant to the option agreement, or in another property owned by the Company within three kilometres from each point on the outermost boundaries of such Mineral Rights, then all such areas containing non-metallic elements shall be re-conveyed to the company controlled by a director for no further consideration; and
- (vii) if within twelve months of acquisition under the option agreement the Company does not explore or develop, or chooses to relinquish its interest in such Mineral Rights, then such Mineral Rights shall be re-conveyed to the company controlled by a director for no further consideration.

(l) Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel were as follows:

<b>For the years ended</b> (in 000's of U.S. dollars)	<b>December 31, 2011</b>	December 31, 2010
	\$	\$
Management salaries, benefits and bonuses	<b>1,243</b>	878
Director fees	<b>347</b>	363
Consulting fees	-	284
Share-based payments	<b>5,324</b>	2,920
	<b>6,914</b>	4,445

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Total management salaries, benefits, bonuses and share-based payments of \$431,000 (2010 - \$525,000) that were included above were capitalized to exploration and evaluation assets.

**24. CORPORATE ADMINISTRATION EXPENSES**

<b>For the years ended</b> (in 000's U.S. Dollars)	Note	<b>December 31, 2011</b>	December 31, 2010
		\$	\$
Share-based payments	22(d)	<b>5,913</b>	4,155
Salaries		<b>1,614</b>	1,342
Capital and equity tax		<b>1,145</b>	-
General office and administration expense		<b>986</b>	418
Professional fees		<b>771</b>	1,097
Investor relations		<b>433</b>	221
Depreciation and amortization	11	<b>396</b>	165
Travel expenses		<b>373</b>	272
Directors fees and expenses		<b>347</b>	363
Regulatory fees		<b>165</b>	460
Warrant issue costs		-	2,343
		<b>12,143</b>	10,836

## 25. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year:

For the years ended	December 31, 2011	December 31, 2010
Net income (loss) attributable to equity holders of the Company (in 000's U.S. Dollars)	\$ 18,204	\$ (119,061)
Weighted average number of common shares outstanding (in 000's)	105,984	71,562
<b>Basic earnings per share</b>	<b>\$ 0.17</b>	<b>\$ (1.66)</b>

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options.

For the years ended	December 31, 2011	December 31, 2010
Net income (loss) attributable to equity holders of the Company (in 000's U.S. Dollars)	\$ 18,204	\$ (119,061)
Weighted average number of common shares outstanding (in 000's)	105,984	71,562
Adjustments for (in 000's):		
Warrants	3,698	-
Stock options	3,913	-
Weighted average number of common shares for diluted earnings per share (in 000's)	113,595	71,562
<b>Diluted earnings per share</b>	<b>\$ 0.16</b>	<b>\$ (1.66)</b>

## 26. CASH FLOW – OTHER ITEMS

### (a) Other Operating Activities

For the years ended (in 000's U.S. Dollars)	Note	December 31, 2011	December 31, 2010
		\$	\$
Other non-cash items:			
Depreciation and amortization		396	165
Interest and accretion expense		43	50
Interest income		(385)	–
		54	215
Net changes in non-cash operating working capital balances:			
Receivables and prepaid expenses		201	(836)
Accounts payable and accrued liabilities		(114)	1,263
Effect of non-cash working capital as a result of amalgamation	6	–	(342)
		87	85

### (b) Other Investing Activities

For the years ended (in 000's U.S. Dollars)	Note	December 31, 2011	December 31, 2010
		\$	\$
Marketable securities	8(b)	(64)	–
Restricted cash		216	(222)
Prepays and advances		110	(64)
Intangible assets		(206)	(223)
Accounts payable and accrued liabilities attributable to exploration and evaluation assets		(994)	840
Proceeds from assets		100	100
Cash acquired on amalgamation	6	–	103
		(838)	534

### (c) Supplemental information regarding non-cash transactions

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

- The Company disposed of exploration and evaluation assets with an aggregate value of \$6,556,000 in exchange for an equity investment in an associate valued at \$2,526,000, resulting in a loss on disposal of \$4,100,000 (Note 13).

## 27. COMMITMENTS AND CONTINGENCIES

Non-cancellable operating lease payments in respect of the Company's office facilities in Toronto are payable as follows:

(in 000's of U.S. dollars)	Total	Less than 1 Year	Years 2 - 5	After 5 Years
Operating leases	663	168	495	-
	663	168	495	-

On July 10, 2009, the Company entered into a five-year mining agreement with an arm's length party. The contract was cancelled during 2011.

### Environmental Contingencies

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

## 28. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these audited annual financial statements were prepared as described in Note 2, including the application of IFRS 1.

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

### Initial elections upon adoption

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

### IFRS Exemption Options

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, retrospectively or prospectively. The Company elected to apply IFRS 3 prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

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

### IFRS Mandatory Exceptions

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

### Changes in accounting policies:

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

#### (a) Measurement of decommissioning and rehabilitation provision

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

**IFRS** - IFRS requires decommissioning provisions to be measured based on management's best estimate of the expenditures that will be made and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability to fair value (unwinding of the discount). Furthermore, the estimated future cash flows should be discounted using the current risk-free pre-tax discount rate in Colombia.

#### Impact on Statements of Financial Position and Statements of Operations and Comprehensive Income (Loss)

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Increase in exploration and evaluation assets	149	149
Increase in rehabilitation provision	148	149
Decrease in accretion expense	(1)	-

(b) **Share-based compensation**

**Canadian GAAP** - Forfeitures of awards are recognized as they occur. Stock options subject to graded vesting (i.e. that vest in equal increments over the vesting term) were treated as a single grant for purposes of valuation.

**IFRS** – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Where stock options are subject to graded vesting, each vesting tranche is valued separately.

As a result, the Company adjusted its share-based payments to reflect these differences.

**Impact on Statements of Financial Position and Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Decrease in share-based payment expense	(606)	-
Decrease in exploration & evaluation asset	(284)	-
Decrease in deficit	(29)	(29)
Decrease in share-based payment reserve	801	29
Decrease in share premium reserve	118	-

(c) **Reclassification within equity section**

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. As the result, the Company performed the following reclassification:

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Decrease in contributed surplus	141,763	35,379
Increase in share premium reserve	(134,881)	(34,135)
Increase in share-based payment reserve	(6,882)	(1,244)

(d) **Reclassification from exploration and evaluation assets into equipment**

Certain reclassifications were performed from exploration and evaluation assets into equipment to conform to the presentation of mining related equipment under IFRS.

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Increase in property, plant and equipment	1,208	1,208
Decrease in exploration and evaluation assets	(1,208)	(1,208)

(e) **Classification and measurement of warrants denominated in Canadian dollars**

**Canadian GAAP** – The Company’s Canadian dollar-denominated warrants are classified as equity instruments and measured at fair value upon initial recognition. Transactions costs related to the issuance of warrants are recognized as a deduction to the value of the warrants.

**IFRS** – The Company’s Canadian dollar-denominated warrants are considered derivative instruments and have been reclassified as Canadian dollar-denominated warrants and measured at fair value. On initial recognition and at each subsequent reporting date, the derivatives are adjusted to fair value with changes recognized in the statement of operations and comprehensive income (loss). Transaction costs attributable to the issuance of warrants are recognized in the statement of operations and comprehensive income (loss).

**Impact on Statements of Financial Position and Operations and Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010
	\$
Increase in Canadian dollar-denominated warrants	(88,920)
Increase in share premium reserve	(25,410)
Decrease in warrants & broker warrants reserve	13,839
Increase in corporate administration expense	2,344
Loss on derivative financial instruments	98,147

(f) **Reverse Acquisition**

**Canadian GAAP** - The reverse acquisition was treated as a capital transaction with the cost of the transaction measured at the fair value of the consideration given or the assets acquired, whichever is more reliably measured. As the valuation of the consideration is calculated using the Black-Scholes option pricing model which requires assumptions to be used, the Company measured the transaction based on the fair value of the net assets acquired, which was in a deficit position and therefore, recorded the transaction directly into deficit.

**IFRS** – The substance of the transaction is a reverse acquisition of a non-operating company which does not constitute a business combination as Cronus does not meet the definition of a business. The transaction is accounted for as a capital transaction with the consideration paid by the Company measured with the excess over the fair value of the assets being recognized in the statement of operations and comprehensive income (loss).

As the acquiree was in a net liability position on the date of the reverse acquisition, the consideration paid and the net liability positions were recorded in the statement of operations and comprehensive income (loss).

**Impact on Statements of Financial Position and Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010
	\$
Increase in warrants liability	(1,154)
Increase in share premium reserve	(8,515)
Increase in share-based payment reserve	(314)
Decrease in deficit	(239)
Loss on reverse acquisition	10,222

(g) **Convertible debt**

**Canadian GAAP** - The convertible debt instruments were segregated into debt and equity components. The value of the conversion option makes up the equity component of the instrument.

**IFRS** - The convertible debt instruments are classified as liabilities and are made up of the underlying debt and embedded derivative components. The conversion option is considered the embedded derivative component.

**Impact on Statements of Financial Position and Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Convertible debenture	-	(2,788)
Equity component of convertible debt	-	2,788

(h) **Income taxes**

**Canadian GAAP** - Taxable and deductible temporary differences are computed in the local tax reporting currency of Colombian pesos. After applying the appropriate tax rate, any resulting future income tax asset or liability is then translated into the Company's functional currency of U.S. dollars at the current rate.

In addition, future income taxes are recognized for the tax effect of temporary differences at the time of acquisition or upon initial recognition of an asset.

**IFRS** - The carrying amount of non-monetary assets and liabilities is translated into the functional currency of U.S. dollars at the historical rate and compared to its tax base translated into the functional currency at the current rate. The resulting temporary difference (measured in the Company's functional currency of U.S. dollars) is then multiplied by the appropriate tax rate to determine the related deferred tax asset or liability.

Deferred taxes on temporary differences which arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit are not permitted to be recognized.

In addition, income taxes payable is required to be disclosed separately on the statement of financial position.

**Impact on Statements of Financial Position and Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010	January 1, 2010
	\$	\$
Decrease in accounts payable and accrued liabilities	73	56
Increase in income taxes payable	(73)	(56)
Decrease in exploration and evaluation assets	(2,224)	-
Decrease (increase) in deferred tax liability	1,508	(613)
Increase in income tax expense	103	-
Increase in deficit	613	613

(i) **Presentation of expenses**

Under IFRS, the Company has presented expenses on the statement of operations and comprehensive income (loss) by function.

**Impact on Statements of Operations and Comprehensive Income (Loss)**

(in \$000's of U.S. dollars)	December 31, 2010
	\$
Increase in corporate administration expenses	4,761
Decrease in share-based compensation	(4,761)

Reconciliation of Statement of Financial Position between IFRS and Canadian GAAP  
As at January 1, 2010

Canadian GAAP accounts	Canadian GAAP Balances	IFRS Adjustments	IFRS Balances	IFRS accounts
(in 000's of U.S. dollars)	\$	\$	\$	
<b>Assets</b>				<b>Assets</b>
<b>Current assets</b>				<b>Current assets</b>
Cash and cash equivalents	1,604	-	1,604	Cash and cash equivalents
Receivables and prepaid expenses	232	-	232	Receivables and prepaid expenses
<b>Long-term assets</b>				<b>Non-current assets</b>
Restricted cash	83	-	83	Restricted cash
Prepays and advances	355	-	355	Prepays and advances
Intangible assets	27	-	27	Intangible assets
Equipment (d)	655	1,208	1,863	Property, plant and equipment
Mineral properties (a), (d), (h)	45,732	(1,059)	44,673	Exploration & evaluation assets
<b>Total Assets</b>	<b>48,688</b>	<b>149</b>	<b>48,837</b>	<b>Total Assets</b>
<b>Liabilities</b>				<b>Liabilities</b>
<b>Current Liabilities</b>				<b>Current Liabilities</b>
Accounts payable and accrued liabilities (h)	1,692	(56)	1,636	Accounts payable and accrued liabilities
(h)		56	56	Income taxes payable
<b>Long-term liabilities</b>				<b>Non-current</b>
Future income tax liability (h)	12,319	613	12,932	Deferred income tax liability
(g)	-	2,788	2,788	Convertible debenture
Asset retirement obligation (a)	59	149	208	Rehabilitation provision
<b>Total Liabilities</b>	<b>14,070</b>	<b>3,550</b>	<b>17,620</b>	<b>Total Liabilities</b>
<b>Equity</b>				<b>Equity</b>
Share capital	12	-	12	Share capital
(c)	-	34,135	34,135	Share premium reserve
Warrants	3,129	-	3,129	Warrants and broker warrant reserve
Contributed surplus (b), (c)	35,379	(34,164)	1,215	Share-based payment reserve
Equity component of convertible debt (g)	2,788	(2,788)	-	
Deficit	(6,690)	(584)	(7,274)	Deficit
<b>Total Equity</b>	<b>34,618</b>	<b>(3,401)</b>	<b>31,217</b>	<b>Total Equity</b>
<b>Total Liabilities &amp; Equity</b>	<b>48,688</b>	<b>149</b>	<b>48,837</b>	<b>Total Liabilities &amp; Equity</b>

**Reconciliation of Statement of Financial Position between IFRS and Canadian GAAP  
As at December 31, 2010**

<b>Canadian GAAP accounts</b>	<b>Canadian GAAP Balances</b>	<b>IFRS Adjustments</b>	<b>IFRS Balances</b>	<b>IFRS accounts</b>
(000's of U.S. dollars)	\$	\$	\$	
<b>Assets</b>				<b>Assets</b>
<b>Current assets</b>				<b>Current assets</b>
Cash and cash equivalents	97,208	-	97,208	Cash and cash equivalents
Marketable securities	892	-	892	Marketable securities
Receivables and prepaid expenses	1,884	(650)	1,234	Receivables and prepaid expenses
<b>Long-term assets</b>				<b>Non-current assets</b>
Restricted cash	305	-	305	Restricted cash
Long-term portion of receivables	623	-	623	Long-term portion of receivables
Prepays and advances	419	-	419	Prepays and advances
Intangible assets	190	-	190	Intangible assets
Equipment (d)	2,248	1,208	3,456	Property, plant and equipment
Mineral properties (a), (b), (d), (h)	57,726	(2,917)	54,809	Exploration & evaluation assets
<b>Total Assets</b>	<b>161,495</b>	<b>(2,359)</b>	<b>159,136</b>	<b>Total Assets</b>
<b>Liabilities</b>				<b>Liabilities</b>
<b>Current Liabilities</b>				<b>Current Liabilities</b>
Accounts payable and accrued liabilities (h)	3,812	(73)	3,739	Accounts payable and accrued liabilities
(h)		73	73	Income taxes payable
	-	55,865	55,865	Current portion of Canadian dollar-denominated warrants
<b>Long-term liabilities</b>				<b>Non-current</b>
Future income tax liability (h)	14,059	(1,508)	12,551	Deferred income tax liability
(e)		34,209	34,209	Canadian dollar-denominated warrants
Asset retirement obligation (a)	67	148	215	Rehabilitation provision
<b>Total Liabilities</b>	<b>17,938</b>	<b>88,714</b>	<b>106,652</b>	<b>Total Liabilities</b>
<b>Equity</b>				<b>Equity</b>
Share capital (c), (e)	17	-	17	Share capital
	-	168,688	168,688	Share premium reserve
Warrants	17,558	(13,839)	3,719	Warrants and broker warrants reserve
Contributed surplus (b), (c), (f)	141,763	(135,368)	6,395	Share-based payments reserve
Deficit	(15,781)	(110,554)	(126,335)	Deficit
<b>Total Equity</b>	<b>143,557</b>	<b>(91,073)</b>	<b>52,484</b>	<b>Total Equity</b>
<b>Total Liabilities &amp; Equity</b>	<b>161,495</b>	<b>(2,359)</b>	<b>159,136</b>	<b>Total Liabilities &amp; Equity</b>

**Reconciliation of statement of operations and comprehensive income (loss) for the year ended December 31 2010:**

<b>Canadian GAAP accounts</b>	<b>Canadian GAAP Balances</b>	<b>IFRS Adjustments</b>	<b>IFRS Balances</b>	<b>IFRS accounts</b>
(000's of U.S. dollars)	\$	\$	\$	
Stock-based compensation	4,761	(4,761)	-	
Corporate administration	4,337	6,499	10,836	Corporate administration
Write-down of mineral properties	1,443	-	1,443	Exploration expense
Loss on sale of properties	1,006	-	1,006	Write-down of mineral properties
Foreign exchange gain	(1,846)	-	(1,846)	Loss on sale of properties
Unrealized gain on marketable securities	(312)	-	(312)	Foreign exchange gain
	-	98,147	98,147	Unrealized gain on marketable securities
Interest income	(219)	-	(219)	Loss on derivative financial instruments
Other income/expense	(66)	-	(66)	Interest income
Interest & accretion expense	52	(1)	51	Other
Income tax expense (recovery)	(304)	103	(201)	Income tax expense
	-	10,222	10,222	Income tax expense (recovery)
				Loss on reverse acquisition
<b>Net loss and comprehensive loss</b>	<b>8,852</b>	<b>110,209</b>	<b>119,061</b>	<b>Net loss and comprehensive loss</b>

**29. COMPARATIVE FIGURES**

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## CORPORATE INFORMATION

### DIRECTORS

Robert W. Allen<sup>(1)</sup>  
(Medellín, Colombia)

Patrick F.N. Anderson<sup>(3)</sup>  
(Ontario, Canada)

James S. Felton<sup>(2)(3)</sup>  
(Medellín, Colombia)

Jaime I. Gutiérrez<sup>(2)(3)</sup>  
(Medellín, Colombia)

Paul J. Murphy<sup>(2)</sup>  
(Ontario, Canada)

Ari B. Sussman  
(Ontario, Canada)

Timothy A. Warman<sup>(2)(3)</sup>  
(Ontario, Canada)

1 Chairman

2 Audit Committee

3 Corporate Governance, Nominating &  
Compensation Committee

### TRANSFER AGENT AND REGISTRAR

Shareholders may obtain information about their shares, lost certificates and other matters from Continental Gold's transfer agent:

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9<sup>th</sup> Floor - 100 University Avenue  
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M5J 2Y1

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### OFFICERS AND SENIOR MANAGEMENT

Ari B. Sussman  
Chief Executive Officer

Mark Moseley-Williams  
President and Chief Operating  
Officer

Paul Begin  
Chief Financial Officer

Gustavo Koch  
Executive Vice President

Mauricio Castaneda  
Vice President, Exploration

Christian Grainger, PhD  
Vice President, Exploration –  
Regional

Vic Wall, PhD  
Special Advisor

Greg Hall  
Technical Advisor

### AUDITORS

PricewaterhouseCoopers LLP  
Toronto, Ontario, Canada

### LEGAL COUNSEL

Cassels, Brock & Blackwell LLP  
Toronto, Ontario, Canada

### EXCHANGES

Toronto Stock Exchange  
Symbol: CNL

OTCQX  
Symbol: CGOOF

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