

**CONTINENTAL GOLD LIMITED**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE THREE MONTHS ENDED MARCH  
31, 2010**

**DATED: MAY 17, 2010**

## **INTRODUCTION**

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of 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 three months ended March 31, 2010. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion dated May 17, 2010, should be read in conjunction with the audited annual financial statements of the Company and Cronus Resources Ltd. ("Cronus") for the year ended December 31, 2009, together with the notes thereto, and the unaudited interim financial statements of the Company for the three months ended March 31, 2010, together with the notes thereto. Results are reported in U.S. dollars, unless otherwise noted. The audited annual financial statements of the Company and Cronus have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The unaudited interim financial statements of the Company have been prepared in accordance with Canadian GAAP for interim financial reporting and, accordingly, do not include all of the information and notes required by Canadian GAAP for annual financial statements. Information contained herein is presented as of May 17, 2010, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of CGL common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

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

The Company is a reporting issuer under applicable securities legislation of Ontario, Alberta and British Columbia and its outstanding common shares are listed on the Toronto Stock Exchange under the symbol "CNL".

## **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 information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties; the future price of gold; success of exploration activities; cost and timing of future exploration and development; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; requirements for additional capital; and other statements relating to the financial and business prospects of the Company. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the reasonable assumptions, estimates,

analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management 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:

- (i) The Company's goal of creating shareholder value by concentrating on the acquisition and development of properties that have the potential to contain economic gold deposits (See "Goal", below);
- (ii) Management's assessment of future plans for the Buritica and Berlin projects (See "LIQUIDITY, CAPITAL RESOURCES AND BUSINESS PROSPECTS", below);
- (iii) Management's economic outlook regarding future trends (See "TRENDS", below);
- (iv) The Company's expected combined exploration budget for the Buritica project for the balance of fiscal 2010 is \$4.55 million and in particular, the availability of skilled labour, timing and the amount of the expected budget (See "Buritica Project" under "MINERAL EXPLORATION PROPERTIES", below, and "LIQUIDITY, CAPITAL RESOURCES and BUSINESS PROSPECTS", below);
- (v) The Company's expected exploration budget for the balance of fiscal 2010 is \$ 1.15 million on the Berlin project (defined herein), and in particular, the availability of skilled labour, timing and the amount of the expected exploration budget (See "Berlin Project" under "MINERAL EXPLORATION PROPERTIES", below, and "LIQUIDITY, CAPITAL RESOURCES and BUSINESS PROSPECTS", below);
- (vi) The Company's ability to meet its fiscal 2010 planned expenditures (See "LIQUIDITY, CAPITAL RESOURCES and BUSINESS PROSPECTS", below);
- (vii) Expectations with respect to raising capital (See "LIQUIDITY, CAPITAL RESOURCES AND BUSINESS PROSPECTS", below); and
- (viii) Sensitivity analysis on financial instruments may vary from amounts disclosed (See "FINANCIAL INSTRUMENTS", below).

Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, other factors could also cause materially different results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

## **DESCRIPTION OF BUSINESS**

The primary business objective of the Company is to explore for and develop gold deposits in Colombia, South America. The Company currently holds the rights to explore and develop 9

properties in Colombia totalling approximately 495,000 acres or approximately 200,000 hectares. Currently, the Company's primary focus is on its Buritica and Berlin projects. The Company is incorporated in Bermuda and carries on its operations through a branch office in Medellin, Colombia.

Pursuant to a pre-amalgamation agreement dated November 9, 2009 Continental Gold Limited, a Bermuda based, privately owned company, and Cronus, a TSX Venture Exchange listed company completed their proposed amalgamation on March 30, 2010. The resulting issuer, also a Bermuda based company, now operates under the Continental Gold Limited name (the "Company" or "CGL") and is governed by the by-laws of the original Continental Gold Limited. Each shareholder of Continental Gold Limited and Cronus received one common share of the Company for 2.6973 common shares of Continental Gold Limited and 2.35712 common shares of Cronus, respectively. The outstanding share purchase warrants and stock options of Continental Gold Limited and Cronus were converted into share purchase warrants and stock options of the Company by applying the same conversion ratios. The respective shareholders of Continental Gold Limited and Cronus voted in favour of the amalgamation at separate shareholder meetings that took place on March 22, 2010. The Company began trading on the TSX on April 19, 2010.

On January 28, 2010 and February 11, 2010, pursuant to the terms and conditions of the pre-amalgamation agreement, the Company completed an equity financing consisting of the sale of 19,166,667 subscription receipts at a price of Cdn. \$1.50 per subscription receipt for gross proceeds of Cdn. \$28,750,000. On March 30, 2010 each subscription receipt was converted into one unit of the Company. Each unit consists of one common share of the Company and one half of one common share purchase warrant of the Company. Each full warrant has an exercise price of Cdn. \$2.25 per common share and an expiry date of March 30, 2011.

On November 27, 2009, CGL issued a convertible debenture in the principal amount of Cdn. \$3,000,000. On March 30, 2010, the principal amount of the debenture plus the accrued and unpaid interest on the debenture was automatically converted, at a conversion price of Cdn. \$1.50 per unit, into 2,029,135 units of the Company in accordance with the terms stated in the pre-amalgamation agreement. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant has an exercise price of Cdn. \$1.75 per common share and an expiry date of March 30, 2012.

The Company has no revenues and as such CGL's 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.

## **GOAL**

CGL's goal is to deliver superior returns to shareholders by concentrating on the acquisition and development of properties that have the potential to contain economic gold deposits. The Company plans to focus on certain properties, as set out below under "MINERAL EXPLORATION PROPERTIES".

## **OUTLOOK AND OVERALL PERFORMANCE**

During the first quarter of 2010, the Company focused its activities on completing its

amalgamation with Cronus and the concurrent closing of its private placement of common shares and warrants for gross proceeds of Cdn. \$28,750,000 on March 30, 2010. The Company completed the listing of its common shares and began trading on the TSX on April 19, 2010.

While general economic conditions continue to improve and stability appears to be returning to financial and commodity markets, significant uncertainty concerning the short and medium term global economic outlook persists. Management, in conjunction with the Board of Directors, will continue to monitor these developments and their affect on CGL's business.

The Company's underground exploration development at Buritica continued to result in small-scale gold production during the quarter with aggregate gold sales of \$1,934,753 related to exploration work and drifting in ore. Gold sales are viewed to be a recovery of expenses and as such are treated as a capital credit and netted against deferred expenses that have been incurred to-date on the mineral properties. The Company incurred deferred expenses of \$1,678,272 on its mineral properties during the quarter of which \$350,000 is a non-cash charge relating to the increase in the future tax liability associated with the mineral properties resulting in total cash expenses for the quarter of \$1,328,272. As of March 31, 2010, the Company had mineral properties valued at \$44,219,140, compared to \$45,648,328 as at December 31, 2009. See "MINERAL EXPLORATION PROPERTIES", below.

At March 31, 2010, the Company had working capital of \$24,986,116, compared to \$228,023 at December 31, 2009. The Company had cash and cash equivalents of \$27,223,833 at March 31, 2010, compared to \$1,603,792 at December 31, 2009.

## **TRENDS**

The Company is a Bermuda-based mineral exploration company primarily focused on the exploration and development of gold deposits in Colombia, South America. The Company anticipates that it will continue to experience net losses as a result of ongoing operating expenditures. The Company's future financial success will be dependent upon the extent to which it can make gold discoveries and on the economic viability of those discoveries. The development of such assets may take years to complete and the resulting income, if any, is difficult to determine with any certainty. In addition, both the price of, and the market for, gold is volatile, difficult to predict and subject to changes in domestic and international political, social and economic environments. However, large gold equity financings have occurred within the recent past for both producing and development stage companies. There can be no assurance that the demand for precious metal equity offerings will continue, and therefore the Company may not be able to raise sufficient funds on favourable terms to further explore or develop any of its property interests.

Although economic conditions in Canada have improved, the Company remains cautious in case the economic factors that affect the mining industry deteriorate. The Company's future performance is largely tied to the success of its future exploration programs on its properties and the overall financial markets. Current financial markets are likely to be volatile for calendar 2010, reflecting ongoing concerns about the global economy. With continued market volatility expected, the Company's current strategy is to continue selective exploration on its properties and to tightly control operating costs. The Company believes this focused strategy will enable it to meet the near-term challenges presented by the capital markets and the global economy while maintaining momentum on key initiatives. Management regularly monitors economic conditions and estimates their impact on the Company's operations and budgeting process and incorporates

these estimates into short- term operating and longer-term strategic decisions.

Apart from these and the risk factors noted under the heading “RISK FACTORS” below, management is not aware of any other trends, commitments, events or uncertainties that would have a material affect on the Company’s business, financial condition or results of operations.

## **CONTINGENCIES**

The Company's mining and exploration 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 March 31, 2010, 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.

## **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 affect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## **MINERAL EXPLORATION PROPERTIES**

The Company currently holds a 100% interest in 9 properties in Colombia, South America. The Company holds the right to explore and develop these 9 properties that comprise an aggregate area of approximately 495,000 acres or approximately 200,000 hectares. CGL’s 2 principal properties are the Buritica and Berlin projects.

### **(i) Buritica Project**

#### Description

The Buritica Project has an aggregate area 77,360 acres and is located about 75 kilometres northwest of Medellin in the Antioquia Department of north-western Colombia. The project area is comprised of 22 registered concessions covering 13,738 acres and 9 pending registration concessions totalling 32,967 acres. A further 5 concession applications have been submitted covering 30,655 acres. 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 Buritica Project includes the Yaragua Mine which has previously been under small scale production by the Company and is now utilized for underground exploration development and a bulk sample testing operation. The Yaragua Mine has not been the subject of a formal feasibility study prepared by an independent qualified person in accordance with National Instrument 43-101 – Standard Disclosure for Mineral Projects. Until such time as an independent feasibility study is prepared, there is no objective basis to determine whether such operations are economic or have the potential to be profitable.

### Summary of Activities

An exploration budget of \$4.55 million has been allocated to the Buritica Project for the remainder of fiscal 2010. Approximately \$3.5 million will be spent on a 22,000 metre drill program of which two thirds will be for infill drilling and a third for new target exploration. The principal costs included in the exploration budget are drilling expenses and employee salaries. During the quarter, gold sales resulting from exploration work and drifting in ore at the Buritica Project amounted to \$1,934,753. Pursuant to the Company's stated accounting policies, these gold sales were treated as a capital credit to the Buritica Project as opposed to being included as a revenue item in the Company's statement of operations. Operating expenses of \$664,000 were incurred during the quarter and were capitalized to the Buritica Project as deferred expenses.

#### **(ii) Berlin Project**

##### Description

The Berlin project consists of 12 registered concessions totalling 69,874 acres and 2 concession applications totalling 37,050 acres. The project area is located 90 kilometres north of Medellin in the Antioquia Department.

##### Summary of Activities

An exploration budget of \$1.15 million has been allocated to the Berlin project for the remainder of 2010. Of this amount approximately \$700,000 will be used to fund a 4,000 metre drill programme.

During the quarter the Company completed final geology, sampling and land access agreements necessary to begin the drill programme in May, 2010.

#### **(iii) Anza Project**

##### Description

The Anza Project is located 50 kilometres west of Medellin in the Antioquia Department and consists of 5 registered concessions covering 40,288 acres and 11 concession applications totalling 84,401 acres.

##### Summary of Activities

On February 17, 2010 the Company and 5 other parties (the "Optionors") entered into a letter of intent to option a contiguous group of properties (the "Properties") to Waymar Resources Ltd. ("Waymar"). The letter of intent sets out the key terms of the option to be granted to Waymar to earn a 100% interest in the Properties. The letter of intent is subject to the execution of a definitive option agreement no later than May 20, 2010. Execution of the option agreement is subject to satisfactory due diligence of the Properties by Waymar. The Company has included its Anza Project in the Properties. The Company is entitled to receive 25% of all consideration flowing to the Optionors from Waymar pursuant to the option agreement and the letter of intent. Upon signing of the letter of intent on February 17, 2010 Waymar paid a non-refundable fee of \$50,000 to the Optionors, \$12,500 of which was paid to the Company. In order to earn a 100% interest in the Properties, Waymar must annually make cash payments and issue Waymar common shares (the "Shares") to the Optionors. As well, Waymar must incur minimum annual

exploration expenditures on the Properties. Upon the signing of the option agreement Waymar will make a cash payment of \$250,000 and issue 300,000 Shares to the Optionors. On the first anniversary of the signing of the option agreement, Waymar must make a further cash payment of \$500,000 and issue 500,000 Shares to the Optionors. On the second anniversary of the signing of the option agreement, Waymar must make a further cash payment of \$1,000,000 and issue 1,000,000 Shares to the Optionors and on the third anniversary of the signing of the option agreement, Waymar must make a final cash payment of \$2,000,000 and issue 2,000,000 Shares to the Optionors. Waymar is also responsible for incurring a minimum of \$4,000,000 of exploration expenditures on the Properties. On the first anniversary of the signing of the option agreement, Waymar must incur \$500,000 of exploration expenditures which must include a minimum of 2,000 metres of drilling. By the second anniversary date a further \$1,500,000 of exploration expenditures and by the third anniversary date a further \$2,000,000 of exploration expenditures must be incurred by Waymar. The Optionors will maintain a 2% net smelter royalty in the Properties. Additionally, Waymar will have the option to purchase half of the net smelter royalty from the Optionors at a cost of \$1,000,000.

**(iv) Dominical Project**

Description

The Dominical Project consists of 2 registered concessions totalling 19,105 acres and 2 applications for concessions covering 19,199 acres. The project area is located in southern Colombia in the Cauca Department.

Summary of Activities

The Dominical Project was subject to an option agreement dated October 4, 2006 between AngloGold Ashanti Limited (“AngloGold”) and Robert W. Allen, the Chairman of the Company. The option agreement was assigned to CGL by Mr. Allen by way of an assignment agreement dated June 4, 2008. AngloGold began exploration on the Dominical Project in April of 2007 and continued exploration on the project up to February 5, 2010 at which time AngloGold notified the Company that they would no longer be carrying out exploration activity on the Dominical Project. The property has now reverted 100% back to the Company.

The Company is currently evaluating the data generated by AngloGold to determine to what degree the new discoveries of epithermal gold mineralization made by AngloGold merit follow-up exploration.

**(v) Dojura Project**

Description

The Dojura Project consists of 7 registered concessions totaling 91,970 acres and 6 applications totalling 121,610 acres.

Summary of Activities

The Dojura project is subject to an option agreement dated October 4, 2006 between AngloGold and Robert W. Allen, the Chairman of CGL. The option agreement was assigned to the Company by Mr. Allen by way of an assignment agreement dated June 4, 2008.

As of the date of this report AngloGold had not begun exploration on the Dojura Project. On January 15, 2010 AngloGold made an initial payment of \$100,000 to the Company with regard to the Dojura Project, however, both parties have agreed to defer AngloGold's obligations to incur exploration expenses on the property until such time as security conditions in the area have improved.

**(vi) Lunareja Project**

Description

The Lunareja Project is comprised of 9 registered concessions totaling 21,390 acres and 1 application covering an area of 24,700 acres. Two of the registered concessions are within the boundaries of a national park located approximately 65 kilometres west of Medellin.

Summary of Activities

On February 9, 2010 the Colombian Ministry of the Environment, Housing and Territorial Development introduced an amendment to the Mining Code referred to as Law 1382. The amendment was designed to broaden the definition of environmentally sensitive areas where mining operations would be prohibited. Amongst other tests, an elevation test of 3,200 metres was introduced in the amendment thereby precluding the construction of a mine above this height restriction. Management of the Company has now determined that development of the Lunareja Project is no longer feasible and in consultation with the Company's auditors have written down the carrying value of the Lunareja Project to zero. The Company has incurred a charge of \$1,172,707 to its statement of operations during the quarter to reflect the write-down.

**SUMMARY OF QUARTERLY RESULTS**

The Company is an exploration stage entity engaged in the acquisition, exploration, evaluation and development of principally gold resource properties in Colombia. At this time, any issues of seasonality or commodity market fluctuations have no direct impact on the Company's results or operations. The Company currently capitalizes its exploration expenditures to mineral properties as deferred expenses. A summary of selected information for the quarter ended March 31, 2010 is as follows:

The Company incurred a net loss of \$3,331,856 principally related to (i) the write down of the Lunareja Project in the amount of \$1,172,707 (ii) stock-based compensation of \$1,049,834; (iii) professional fees of \$504,235; (iv) head office salaries of \$462,525; and (v) directors' fees of \$45,501. All other expenses related to general working capital purposes.

**RESULTS OF OPERATIONS**

**Three months ended March 31, 2010, compared with three months ended March 31, 2009**

The Company's net loss totaled \$3,331,856 for the three months ended March 31, 2010, with basic and diluted loss per share of \$0.08. This compares with a net loss of \$1,438,849 with basic and diluted loss per share of \$0.03 for the three months ended March 31, 2009. The increase of \$1,893,007 in net loss was principally because:

- Write-off of mineral exploration properties for the three months ended March 31, 2010, was \$1,172,707 (three months ended January 31, 2009 - \$nil) related to the Lunareja Project. (see MINERAL EXPLORATION PROPERTIES, above)
  - Stock-based compensation expense during the three months ended March 31, 2010, was \$1,049,834 (three months ended March 31, 2009 – \$770,600), an increase of \$279,234 compared to the same period in 2009. During the three months ended March 31, 2010, the Company issued 3,414,725 options compared with nil in the comparative period. Stock-based compensation expense varies due to the calculated Black-Scholes value and vesting terms of previously issued options. The options issued vested in accordance with the stock option plan. Users of the financial statements should be cautious of the valuation of stock-based compensation since its calculation is subjective and can impact net loss significantly.
  - Foreign exchange gain for the three months ended March 31, 2010, was \$16,520, compared to a loss of \$101,757 the same period in 2009 a net positive change of \$118,277.
  - Professional fees for the three months ended March 31, 2010 were \$504,235 (three months ended March 31, 2009 – \$218,897), an increase of \$285,338 compared to the same period in 2009. This increase can be attributed to the legal and audit expenses associated with the Company’s amalgamation with Cronus Resources Ltd. and concurrent equity financing on March 30, 2010.
  - Head office salaries for the three months ended March 31, 2010 were \$462,525 (three months ended March 31, 2009 - \$207,082) an increase of \$255,443. This increase was the result of salary paid to the Company’s CEO for his significant efforts in completing the amalgamation with Cronus. Historically the CEO had not taken a salary in his role with the Company.

## **LIQUIDITY, CAPITAL RESOURCES AND BUSINESS PROSPECTS**

Historically, the Company's sole source of funding has been the issuance of common shares for cash. For the three months ended March 31, 2010, the following equity transactions were completed:

- On January 28, 2010 and February 11, 2010 the Company closed a brokered private placement of 19,166,667 units at a price of Cdn. \$1.50 per unit for gross proceeds Cdn. \$28,750,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant has an exercise price of Cdn. \$2.25 per share and an expiry of March 30, 2011. Share issuance cash costs of Cdn. \$2,643,017 were incurred in relation to the offering. Net cash proceeds amounted to Cdn. \$26,106,983.
- On November 27, 2009, CGL issued a convertible debenture in the principal amount of Cdn. \$3,000,000. The debenture accrued interest at an interest rate equal to Canadian Prime plus 2%. On March 30, 2010 the principal portion of the debenture plus accrued and unpaid interest debt was automatically converted, at a conversion price of Cdn. \$1.50 per unit, into 2,029,135 units of the Company in accordance with the terms stated in the pre-amalgamation agreement. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant has an expiry date of March 30,

2012 and an exercise price of Cdn. \$1.75 per common share. Issuance costs associated with the convertible debenture amounted to Cdn. \$62,617. Net cash proceeds amounted to Cdn. \$2,937,383.

Total budgeted expenditures for the Company for the fiscal year ending December 31, 2010 amount to \$13,202,878. Of this amount \$5,149,548 has been allocated to general and administrative expenses, \$2,893,328 to concession license payments and \$6,408,100 to exploration. Gold sales from the trial processing of exploration development ore, net of operating expenses, is budgeted to be \$1,248,098.

The Company maintains its surplus funds in cash and guaranteed investment certificates with Royal Bank of Canada in Toronto, HSBC Bank of Bermuda in Bermuda and select Colombian banks.

At March 31, 2010, the Company had \$27,223,833 in cash and cash equivalents (December 31, 2009: \$1,603,792). The Company had working capital of \$24,986,116 as of March 31, 2010, compared to working capital of \$228,023 as of December 31, 2009. Working capital increased for the current period as a result of the completion of the private placement of common shares.

Accounts payable and accrued liabilities increased to \$2,465,605 at March 31, 2010, compared to \$1,572,837 at December 31, 2009. The increase is the result of consolidating Cronus payables (\$340,566) accrued legal fees arising from the amalgamation (\$378,627) and an underwriter commission arising from the equity financing that was not paid at closing (\$282,009). The Company's cash and cash equivalents and short-term investment balance at March 31, 2010, are sufficient to pay these liabilities.

As of March 31, 2010, the Company had 71,195,761 common shares issued and outstanding, 21,349,138 warrants outstanding which would raise \$34,846,917 if exercised in full and 5,835,643 options outstanding which would raise \$7,433,698 if exercised in full. Management does not know when and how much will be collected as this is dependent on the determination of each warrant and option holder.

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 short-term guaranteed deposits. In addition, amounts receivable are composed mainly of advances to employees 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.

## COMMITMENTS

In March of this year the Company entered into negotiations regarding a 5 year lease agreement for office facilities in Toronto. The Company's proposed gross annual rent, commencing September 1, 2010, will be approximately Cdn. \$167,500 depending upon the actual annual operating costs for the building. The Company is currently finalizing the terms and conditions of the lease agreement.

## SUBSEQUENT EVENTS

On April 19, 2010, subsequent to the March 30, 2010 closing of the amalgamation with Cronus, the Company's common shares were accepted for listing and began trading on the TSX.

On April 23, 2010, 63,637 warrants were exercised for cash proceeds of Cdn. \$22,500.

On May 3, 2010, 4,242 warrants were exercised for cash proceeds of Cdn. \$1,500.

On May 3, 2010, 4,242 stock options were exercised for cash proceeds of Cdn. \$1,739.

On May 7, 2010, 15,909 stock options were exercised for cash proceeds of Cdn. \$17,394.

On May 7, 2010, 66,819 stock options were exercised for cash proceeds of \$1,978 and the cancellation of \$36,225 due to a related party.

On May 10, 2010 the Company issued 700,000 stock options to directors of the Company. The stock options have an exercise price of Cdn. \$2.35 and an expiry date of May 10, 2015.

On May 12, 2010, 2,651 warrants were exercised for cash proceeds of Cdn. \$2,500.

## SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As of May 17, 2010, the Company had 71,195,761 common shares outstanding.

As of May 17, 2010, the following stock options were outstanding, each exercisable to acquire one common share of the Company:

Number of Stock Options	Exercise Price	Expiry date
189,078	\$0.98	June 28, 2010
21,212	Cdn. \$0.94	August 3, 2010
(Note) 53,030	Cdn. \$0.41	March 30, 2011
(Note) 645,089	\$0.98	March 30, 2011
(Note) 31,818	Cdn. \$1.60	March 30, 2011
10,606	Cdn. \$0.94	September 22, 2011
10,606	Cdn. \$0.94	December 19, 2011
18,561	Cdn. \$1.60	September 7, 2012
53,031	Cdn. \$0.84	May 9, 2013
114,545	Cdn. \$0.41	May 4, 2014

250,000	Cdn. \$1.50	March 30, 2013
3,164,725	Cdn. \$1.50	March 30, 2015
1,186,372	\$0.98	January 29, 2019
700,000	Cdn. \$2.35	May 10, 2015
<b>Total - 6,448,673</b>		

Note: In the event the shares of the Company close above Cdn. \$2.25 for 20 consecutive trading days, the Company may accelerate the expiry date of some of the options with an expiry date of March 30, 2011 to a date 30 days subsequent to the date the Company gives notice to the option holder of the Company's intention to accelerate the expiry date of the options. This acceleration feature applies to 27,576 options with an exercise price of Cdn. \$0.41; 481,963 options with an exercise price of \$0.98 and 31,818 options with an exercise price of Cdn. \$1.60. As of May 14, 2010 the shares of the Company had traded above Cdn. \$2.25 for 20 consecutive trading days.

As of May 17, 2010, the following warrants were outstanding, each exercisable to acquire one common share of the Company:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
605,082	Cdn. \$2.07	August 10, 2010
10,606	Cdn. \$2.07	August 16, 2010
79,546	Cdn. \$0.35	February 5, 2011
9,583,334	Cdn. \$2.25	March 30, 2011
549,400	Cdn. \$0.35	April 21, 2011
182,957	Cdn. \$0.94	July 27, 2011
391,367	Cdn. \$0.94	August 5, 2011
7,847,181	\$0.98	March 30, 2012
2,029,135	Cdn. \$1.75	March 30, 2012
<b>Total - 21,278,608</b>		

## **PROPOSED TRANSACTIONS**

There are no proposed transactions of a material nature being considered by the Company. However, the Company continues to evaluate properties that it may acquire in the future.

## **RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 2010, aggregate legal fees included in professional fees on the statement of operations, of \$30,703 (2009- \$36,531) were charged by a law firm in which a director of the Company is a partner and are included in the statement of operations. As at March 31, 2010, included in accounts payable and accrued liabilities are fees amounting to \$87,475 (December 31, 2009- \$68,525) payable to the law firm. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

During the quarter aggregate technical consulting fees of \$15,000 (2009- \$29,625) were charged by a director of the Company. These fees are included as professional fees in the statement of operations. As at March 31, 2010, included in accounts payable and accruals are fees amounting to \$78,600 (December 31, 2009- \$63,600) payable to this director. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

During the three months ended March 31, 2010, aggregate gold sales to a refinery, a company with a common director, amounted to \$1,934,753 (2009- \$1,953,111) and are reported as a reduction to mineral properties on the balance sheet. As of March 31, 2010 the refinery owed the Company \$131,006 (December 31, 2009 – \$215,474) for gold delivered by the Company to the refinery and is included as the related party receivable. This amount is unsecured, non-interest bearing with no fixed terms of repayment. The amount was repaid to the Company on April 8, 2010.

During the quarter the Company received consulting services from Bullet Holding Corporation (“Bullet”), a company with a common director, in the aggregate amount of \$274,500 (2009 - \$ nil), which is included in professional fees in the statement of operations. The amount owing by the Company to Bullet as at March 31, 2010 is \$nil (December 31, 2009 – \$119,453, included in due to related party).

The Company purchased drilling services during the quarter from Terra Colombia S.A., a company with a common director, at a cost of \$73,995 (2009- \$144,500), which were capitalized to mineral properties.

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 (see DESCRIPTION OF THE BUSINESS, above) at a cost of Cdn. \$1.50 per unit for gross cash proceeds to the Company of Cdn. \$2,394,501.

On February 11, 2010, officers and directors of the Company purchased 593,602 units of the Company (see DESCRIPTION OF BUSINESS, above) at a cost Cdn. \$1.50 per unit for gross cash proceeds to the Company of Cdn. \$890,403.

On March 30, 2010 the Company issued 2,402,832 stock options to officers and directors of the Company. The stock options have an exercise price of Cdn. \$1.50 and an expiry date of March 30, 2015.

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.

## **CHANGES IN CANADIAN ACCOUNTING RECOMMENDATIONS**

### **Future Accounting Changes**

#### International Financial Reporting Standards (IFRS)

##### **IFRS Transition Plan**

The Accounting Standards Board has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements in accordance with IFRS beginning with the quarter ended March 31, 2011. The Company’s fiscal 2011 interim and annual financial statements will include comparative fiscal 2010 financial statements, adjusted to comply with IFRS.

The Company has established an IFRS implementation plan to prepare for this transition to IFRS.

The Company is currently in the process of analyzing the key areas where changes to current accounting policies may be required. At this point, management of the Company does not think the transition to IFRS will affect the Company's internal controls. While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

- Exploration and development expenditures;
- Property, plant and equipment;
- Impairment of assets;
- Stock-based compensation;
- Foreign currency;
- Asset retirement obligations;
- Accounting for income taxes; and
- First-time adoption of IFRS (IFRS 1).

The expected timing of activities related to the Company's transition to IFRS is as follows:

Initial analysis of key areas for which changes to accounting policies may be required - in progress, expected to be complete during Q2 fiscal 2010;

Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives - Q2 – Q4 fiscal 2010;

Assessment of first-time adoption (IFRS 1) requirements and alternatives - Q2 – Q4 fiscal 2010;

Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives - Q4 fiscal 2010 – Q1 fiscal 2011;

Resolution of the accounting policy change implications on information technology, business processes, internal controls and contractual arrangements - Q3 fiscal 2010 – Q1 fiscal 2011;

Management and employee education and training - throughout the transition process; and

Quantification of the Financial Statement impact of changes in accounting policies - Q4 fiscal 2010.

### **Impact of Adopting IFRS on the Company's Business**

As part of its analysis of potential changes to significant accounting policies, the Company will assess what changes may be required to its accounting systems, business processes and internal controls over financial reporting. The company will also assess whether any contractual arrangements will be affected by potential changes to significant accounting policies.

The Company's staff and advisers involved in the preparation of financial statements will be

trained on the relevant aspects of IFRS and the anticipated changes to accounting policies. Employees of the Company that will be affected by a change to business processes as a result of the conversion to IFRS will also be trained as necessary.

The Board of Directors and Audit Committee will be regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation of key aspects of IFRS affecting the Company.

### **First-time adoption of IFRS**

The adoption of IFRS requires the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”), which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

As part of the IFRS implementation plan, the Company will identify the optional exemptions it will apply in its preparation of an opening IFRS statement of financial position as at January 1, 2011, the Company’s “Transition Date”.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company’s opening IFRS statement of financial position as at the Transition Date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

### **Impact of Adopting IFRS on the Company’s Financial Statements**

The adoption of IFRS may result in changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements.

Throughout fiscal 2010, the Company will be performing detailed analyses of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.

### **Subsequent Disclosures**

Further disclosures of the IFRS transition process are expected as follows:

- The Company’s MD&A for the remaining fiscal 2010 interim periods will include updates on the progress of the transition plan, and, to the extent known, information regarding the potential impact of adopting IFRS on key line items in the annual financial statements.
- The Company’s MD&A for the year ended December 31, 2010 will include an update on the progress of the transition plan, and any further information available regarding the impact of adopting IFRS on significant accounting policies and key elements of the financial statements.
- The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending March 31, 2011, which will

include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the first quarter of fiscal 2011 will also include fiscal 2010 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (as at January 1, 2011).

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements. The Company is in the process of evaluating the requirements of the new standards.

## **FINANCIAL INSTRUMENTS**

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. 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 activities expose it to a variety of financial risks: liquidity risk, market risk (including interest rate, foreign exchange rate and price risk) and credit 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.

- (a) 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's liquidity and operating results may be adversely affected if its access to capital markets is hindered, whether as a result of a downturn in stock market conditions generally or as a result of conditions specific to the

Company. The Company generates cash flow primarily from its financing activities and interest income earned on its cash and cash equivalents. The Company has cash and cash equivalents of \$27,223,833 (December 31, 2009 - \$1,603,792) to settle current liabilities of \$2,078,821 (December 31, 2009 - \$1,692,290). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

All of the Company's financial liabilities are subject to normal trade terms.

- (b) 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 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 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. The Company maintains Canadian and U.S. dollar bank accounts in Canada, a U.S. dollar bank account in Bermuda and Colombian pesos bank accounts in Medellin. The Company is subject to gains and losses due to fluctuations in the U.S. dollar and the Colombian pesos against the Company's Canadian dollar cash and cash equivalents. 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 March 31, 2010, would affect net loss and comprehensive loss by approximately \$2,643,000.

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 equivalents being invested in interest-bearing instruments. Interest rate risk is minimal as the Company's interest bearing instruments have fixed interest rates.

- (c) Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be minimal. The related party receivables from the refinery are very short term in nature and generally settled in less than 10 days. The related party receivable in the amount of \$131,600 was paid on April 8, 2010.

The related party receivable is in good standing as of March 31, 2010. Management believes that the credit risk concentration with respect to amounts receivable is minimal.

- (d) Fair value

As at March 31, 2010, the carrying and fair value amounts of the Company's financial instruments were approximately equivalent.

- (e) Fair value hierarchy and liquidity risk disclosure

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2010 under Canadian GAAP:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Cash & GIC		\$27,223,833		\$27,223,833

## 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 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 March 31, 2010, total shareholders' equity (managed capital) was \$57,810,411 (December 31, 2009 - \$34,618,626).

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 and if it has adequate financial resources to do so.

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 three months ended March 31, 2010.

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 March 31, 2010.

## RISK FACTORS

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Those identifiable risks include the following:

## **Nature of Mineral Exploration**

Resource exploration and development is a speculative business and involves a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The properties in which the Company holds an interest are without a known mineral resource. Each of the proposed programs on the properties is an exploratory search for 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 and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Most of the above factors are beyond the control of CGL.

## **Political Risks**

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 of 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 CGL 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 CGL'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 CGL is relying upon.

## **Repatriation of Earnings**

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.

## **Limited Operating History**

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

### **Requirement for Further Financing**

CGL has sufficient financial resources to undertake all of its currently planned exploration programs over the next 2 to 3 years but will require additional funds to fund further exploration and other acquisitions. The further exploration of the various mineral properties in which the Company holds interests and the acquisition of additional properties depends upon CGL'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 CGL'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 CGL, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, 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.

### **No Assurance of Titles or Boundaries**

CGL has obtained a title report from Colombian legal counsel with respect to title to the Colombia Projects held by the Company but this should not be construed as a guarantee of title. Other parties may dispute title to any of CGL'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. CGL does not have 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.

### **Uninsurable Risks**

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

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

All phases of CGL'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 activities. Environmental hazards may exist on the properties in which CGL holds interests which are unknown to the Company at the present 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 CGL's activities. To the extent such approvals are required and not obtained, CGL 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 activities to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration may be required to compensate those suffering loss or damage by reason of such 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 exploration companies, or more stringent implementation of existing laws, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new exploration properties.

### **Competition**

CGL 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 locate and increase reserves 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. CGL may have difficulties successfully accessing transportation infrastructure necessary to export the minerals it may produce in the future.

### **NGO Intervention**

A number of Non-Governmental Organizations ("NGO's) 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.

### **Dependence on Key Management Employees**

CGL's development to date has depended, and in the future will continue to depend, on the efforts of key management employees. Loss of any of these people could have a material adverse effect on CGL. The Company does not have key man insurance in place with respect to any of these individuals.

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

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

### **Foreign Currency Fluctuations**

Continental Gold's current and proposed exploration operations in Colombia render it subject to foreign currency fluctuations, which may materially affect its financial position and results. CGL sends funds to Colombia in U.S. dollars and converts these funds into Colombian pesos. The important exchange rates for Continental Gold are currently the rate between the U.S. dollar and the Colombian peso. While CGL is funding work in Colombia, the Company's results could be impaired by adverse changes in the U.S. dollar to Colombian peso exchange rate.

### **Unreliable Historical Data**

The Company has compiled technical data in respect of the Colombia Projects, much of which was not prepared by CGL. While the data represents a useful resource for CGL, 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 CGL's operations, financial condition and results of operations.

Management of the Company believe that the infrastructure weaknesses in Colombia are comparable to those in any remote mining location located in other parts of the world.

### **Government Regulation**

The mineral exploration activities of CGL 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 exploration activities are currently being 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 CGL.

### **Market Price of CGL Shares**

Securities of micro-cap and small-cap 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 Company's shares 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 CGL's performance that may have an effect on the price of the Company's shares include the following: the extent of analytical coverage available to investors concerning CGL's business may be limited if investment banks with research capabilities do not 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 CGL shares; the size of CGL'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 Company's shares that persists for a significant period of time could cause CGL's securities, if listed on an exchange, to be delisted from such exchange, further reducing market liquidity.

As a result of any of these factors, the price of the Company's shares at any given point in time may not accurately reflect CGL's long-term value.

### **Dividend Policy**

No dividends on the Company's shares have been paid by CGL 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 CGL's operating results, financial condition and current and anticipated cash needs.

### **Future Sales of CGL Shares by Existing Shareholders**

Sales of a large number of Continental Gold Shares in the public markets, or the potential for such sales, could decrease the trading price of the Continental Gold Shares.

### **Control of CGL**

After the completion of the Amalgamation, Bullet Holding Corporation ("Bulletco"), a company controlled by Robert W. Allen, the Chairman of the Company, and related entities holds at least 47.3% of the outstanding shares of the Company. Accordingly, Bulletco retains control of the Company.

### **Bermuda Legal Matters**

The Company is incorporated under the Bermuda Act and is thereby subject to the laws of Bermuda. The following is a summary of certain laws of Bermuda that are relevant to the operations of CGL.

### Bermuda Monetary Authority Consent Required for Free Transferability of CGL shares

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 CGL shares and the subsequent transfer of such shares so long as voting securities of CGL are listed for trading on an appointed stock exchange, and the TSX and TSXV 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. The majority of the Directors are not residents of Canada and all of the Company’s assets are located outside of Canada and the United States. As a result, it may be difficult for investors to effect service of process on those persons in Canada and the United States or to enforce in Canada and the United States judgments obtained in the Canadian or U.S. courts against CGL or those persons who may be liable under Canadian or U.S. 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 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 Bermuda Monetary Authority 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.

### CGL May Become Subject to Taxes in Bermuda

There is currently no Bermuda 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 the Company’s shares or in respect of distributions by CGL with respect to CGL’s shares 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 CGL or any of CGL's operations, shares or other obligations until March 28, 2016. Given the limited duration of the Minister of Finance's assurance, it cannot be certain that the Company will not be subject to any Bermuda tax after March 28, 2016.

#### 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

CGL 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:

- i. 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;
- ii. the taking of mortgages on land in Bermuda to secure an amount in excess of BDS\$50,000 without the consent of the Minister of Finance;
- iii. the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities; or
- iv. 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.

#### 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.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's unaudited interim consolidated financial statements requires management to make certain estimates 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 stock-based compensation.

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 and future income taxes. Changes in the accounting estimates in these items may have a material impact on the financial position of the Company.

## **DISCLOSURE CONTROLS**

Disclosure controls and processes have been designed to ensure that information required to be disclosed by the Company is compiled and reported to Company management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of March 31, 2010, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by employees and third party consultants working for the Company. There have been no significant changes in the Company's disclosure controls and processes during the three months ended March 31, 2010.

It should be noted that while the Company's CEO and CFO believe that its disclosure controls and processes will provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and processes will prevent all errors and frauds. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for certifying the design of the Company's internal controls over financial reporting ("ICFR") as required by National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings". ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of
- financial statements in accordance with applicable Canadian GAAP;
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, has evaluated the design of the Company's ICFR as of March 31, 2010, pursuant to the requirements of National Instrument 52-109. The Company has designed appropriate ICFR (COSO Framework, as discussed below) for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP except as noted herein:

The Company uses Marrelli Support Services Inc. ("MSSI"), a service organization in Canada, to perform certain financial reporting functions including the recording of certain transactions, the reconciliation of accounts and the preparation of the consolidated financial statements. Controlling and monitoring processes performed by MSSI are as important as controlling and monitoring processes performed within the Company. Management currently monitors the work performed by MSSI through the review of the consolidated financial statements and other financial information and discussions with the staff of MSSI. Though these monitoring controls do provide some assurance, they lack a sufficient level of precision to ensure that all errors will be prevented or detected.

MSSI has obtained an auditor's report of controls as at September 30, 2009, that stated the internal control functions that clients of MSSI use are designed and operating effectively. CGL management has determined that the internal controls at MSSI are designed and operating effectively for Canadian operations. The control framework that MSSI has adopted to design certain functions is the COSO Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). COSO is recognized the world over for providing guidance on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

Management has determined that the internal controls of the Company are designed and operating effectively. There have been no changes in ICFR during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).