# CONTINENTAL GOLD LIMITED

**(A Development Stage Company)**

## INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

**(Expressed in U.S. Dollars)**
**(Unaudited)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Continental Gold Limited (a Development Stage Company) were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the unaudited interim 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 period end unaudited interim financial statements together with other financial information. An Audit Committee 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 and the unaudited interim financial statements together with other financial information of the Company.

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.

## NOTICE TO READER

Under Canadian National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

# Continental Gold Limited
**(A Development Stage Company)**
**Interim Balance Sheets**
**(Expressed in U.S. Dollars) (unaudited)**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 85,492,279** | $ 1,603,792 |
| Marketable securities (note 6(b)) | **1,005,084** | – |
| Inventory | **104,624** | 84,137 |
| Amounts receivable and prepaid expenses | **326,677** | 4,612 |
| Related party receivable (note 14) | **162,190** | 227,772 |
| | **87,090,854** | 1,920,313 |
| Restricted cash (note 6(a)) | **358,456** | 83,044 |
| Amounts receivable (note 7) | **623,000** | – |
| Intangible assets (note 8) | **155,427** | 26,522 |
| Prepaid taxes | **523,438** | 159,828 |
| Prepaid exploration costs | **352,570** | 146,841 |
| Equipment advance | **155,545** | 48,250 |
| Equipment (note 9) | **1,491,938** | 655,290 |
| Mineral properties (note 7) | **48,728,009** | 45,648,328 |
| | **$ 139,479,237** | $ 48,688,416 |
| **Liabilities and Shareholders' Equity** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 1,860,538** | $ 1,572,837 |
| Due to related party (note 14) | **–** | 119,453 |
| | **1,860,538** | 1,692,290 |
| Future income tax liability | **12,668,500** | 12,318,500 |
| Asset retirement obligation (note 13) | **65,000** | 59,000 |
| | **14,594,038** | 14,069,790 |
| **Shareholders' equity** | | |
| Share capital (note 10) | **15,517** | 11,733 |
| Warrants and broker warrants (note 11) | **19,952,270** | 3,129,104 |
| Contributed surplus | **120,532,259** | 35,379,168 |
| Equity component of convertible debt (note 10(b)(i)) | **–** | 2,788,119 |
| Deficit | **(15,614,847)** | (6,689,498) |
| | **124,885,199** | 34,618,626 |
| | **$ 139,479,237** | $ 48,688,416 |

Continuance of Operations (note 2)
Commitments and Contingencies (note 15)

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

# Continental Gold Limited

## (A Development Stage Company)

## Interim Statements of Operations and Comprehensive Loss

**(Expressed in U.S. Dollars) (unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Expenses** | | | | |
| Stock based compensation (note 12) | **$ 1,775,028** | $ 159,802 | **$ 4,181,141** | $ 1,086,782 |
| Professional fees (note 14) | **138,063** | 151,467 | **829,796** | 467,965 |
| Salaries | **318,553** | 213,063 | **1,255,177** | 710,301 |
| Investor relations | **67,097** | – | **141,992** | – |
| Directors fees | **271,750** | 34,497 | **317,251** | 103,491 |
| General office and administration expense | **42,313** | 27,474 | **168,922** | 58,977 |
| Insurance | **31,381** | 9,545 | **71,036** | 31,213 |
| Depreciation of equipment | **40,601** | 9,814 | **75,141** | 26,348 |
| Amortization of intangible assets | **14,743** | 8,541 | **29,807** | 16,395 |
| Travel expenses | **61,406** | 10,850 | **110,122** | 43,325 |
| Regulatory fees | **31,037** | – | **231,407** | – |
| Rent expense | **99,245** | – | **117,148** | – |
| Accretion expense | 2,000 | – | 6,000 | – |
| Write-down of mineral properties (note 7) | – | – | 1,172,707 | – |
| **Net loss before the following** | **(2,893,217)** | (625,053) | **(8,707,647)** | (2,544,797) |
| **Other income** | | | | |
| Interest income (expense) | **9,478** | (7,789) | **(13,064)** | 7,416 |
| Other income (expense) | **12,812** | (18,540) | **22,080** | 7,606 |
| Foreign exchange gain (loss) | **64,410** | 110,915 | **(334,085)** | 178,327 |
| Unrealized gain on marketable securities | **346,165** | – | **346,165** | – |
| **Net loss and comprehensive loss for the period** | **$ (2,460,352)** | $ (540,467) | **$ (8,686,551)** | $ (2,351,448) |
| **Loss per common share - basic and diluted** | **$ (0.03)** | $ (0.01) | **$ (0.14)** | $ (0.05) |
| **Weighted average number of common shares outstanding - basic and diluted** | **75,834,887** | 43,499,944 | **63,809,970** | 43,499,944 |

## Interim Statements of Deficit

**(Expressed in U.S. Dollars) (unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Deficit** | | | | |
| Balance at beginning of period | **$ (13,154,495)** | $ (4,376,182) | **$ (6,689,498)** | $ (2,565,201) |
| Amalgamation effect (note 1) | – | – | **(238,798)** | – |
| Net loss for the period | **(2,460,352)** | (540,467) | **(8,686,551)** | (2,351,448) |
| Balance at end of period | **$ (15,614,847)** | $ (4,916,649) | **$ (15,614,847)** | $ (4,916,649) |

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

# Continental Gold Limited

## (A Development Stage Company)

## Interim Statements of Changes in Shareholders' Equity

**(Expressed in U.S. Dollars) (unaudited)**

| | Share Capital | Warrants and Broker Warrants | Contributed Surplus | Equity Component of Convertible Debt | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance December 31, 2008** | **$ 11,733** | **$ 2,706,104** | **$ 34,134,860** | **$ –** | **$ (2,565,201)** | **$ 34,287,496** |
| Stock based compensation | – | – | 1,086,782 | – | – | 1,086,782 |
| Net loss for the period | – | – | – | – | (2,351,448) | (2,351,448) |
| **Balance September 30, 2009** | **11,733** | **2,706,104** | **35,221,642** | **–** | **(4,916,649)** | **33,022,830** |
| Warrant exercise price amendment | – | 423,000 | – | – | – | 423,000 |
| Equity component of convertible debt | – | – | – | 2,788,119 | – | 2,788,119 |
| Stock based compensation | – | – | 157,526 | – | – | 157,526 |
| Net loss for the period | – | – | – | – | (1,772,849) | (1,772,849) |
| **Balance December 31, 2009** | **11,733** | **3,129,104** | **35,379,168** | **2,788,119** | **(6,689,498)** | **34,618,626** |
| Private placement | 1,200 | – | 66,627,240 | – | – | 66,628,440 |
| Conversion of debenture | 205 | – | 2,069,720 | (2,788,119) | – | (718,194) |
| Conversion of subscription receipts | 1,917 | – | 24,798,806 | – | – | 24,800,723 |
| Warrants valuation | – | 14,158,583 | (10,701,125) | – | – | 3,457,458 |
| Broker warrants valuation | – | 3,396,882 | (2,631,728) | – | – | 765,154 |
| Exercise of stock options | 155 | – | 1,680,337 | – | – | 1,680,492 |
| Exercise of warrants | 250 | – | 4,399,299 | – | – | 4,399,549 |
| Fair value of warrants exercised | – | (410,935) | 410,935 | – | – | – |
| Exercise of broker warrants | 57 | – | 814,643 | – | – | 814,700 |
| Fair value of broker warrants exercised | – | (321,364) | 321,364 | – | – | – |
| Cost of issue – cash | – | – | (6,817,541) | – | – | (6,817,541) |
| Stock based compensation | – | – | 4,181,141 | – | – | 4,181,141 |
| Amalgamation effect (note 1) | – | – | – | – | (238,798) | (238,798) |
| Net loss for the period | – | – | – | – | (8,686,551) | (8,686,551) |
| **Balance September 30, 2010** | **$ 15,517** | **$ 19,952,270** | **$ 120,532,259** | **$ –** | **$(15,614,847)** | **$ 124,885,199** |

The accompanying notes are integral part of the unaudited interim financial statements.

# Continental Gold Limited
## (A Development Stage Company)
## Interim Statements of Cash Flows
**(Expressed in U.S. Dollars) (unaudited)**

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| **Cash provided by (used in)** | | | | |
| **Operating activities** | | | | |
| Net loss for the period | **$ (2,460,352)** | $ (540,467) | **$ (8,686,551)** | $ (2,351,448) |
| Items not affecting cash: | | | | |
| Stock-based compensation | **1,775,028** | 159,802 | **4,181,141** | 1,086,782 |
| Depreciation and amortization | **55,344** | 18,355 | **104,948** | 42,743 |
| Interest expense | – | – | **42,843** | – |
| Write-down of mineral properties | **–** | – | **1,172,707** | – |
| Accretion expense | **2,000** | **–** | **6,000** | **–** |
| Unrealized gain on marketable securities | **(346,165)** | – | **(346,165)** | – |
| Changes in non-cash working capital balances: | | | | |
| Inventory | **(36,785)** | **8,740** | **(20,487)** | **(20,154)** |
| Amounts receivable and prepaid expenses | **481,485** | (2,175) | **(322,065)** | 108,636 |
| Related party receivable | **177,311** | (1,870) | **53,285** | (1,870) |
| Accounts payable and accrued liabilities | **321,026** | 110,725 | **(307,986)** | 692,603 |
| Due to related party | **–** | – | **(119,453)** | – |
| Effect of non-cash working capital as a result of amalgamation (note 1) | – | **–** | **(341,781)** | **–** |
| | **(31,108)** | (246,890) | **(4,583,564)** | (442,708) |
| **Investing activities** | | | | |
| Restricted cash | **(17,506)** | (14,249) | **(275,412)** | (17,143) |
| Amounts receivable | **–** | – | **(623,000)** | – |
| Prepaid taxes | **(236,054)** | 56,142 | **(363,610)** | (70,269) |
| Intangible assets | **(3,804)** | (2,953) | **(167,070)** | (5,544) |
| Prepaid exploration costs | **47,051** | (196,025) | **(205,729)** | (452,283) |
| Equipment advance | **(75,429)** | – | **(107,295)** | – |
| Equipment | **(605,869)** | (62,587) | **(1,091,379)** | (255,487) |
| Change in accounts payable attributable to property exploration | **169,952** | 120,894 | **595,687** | 182,349 |
| Depreciation and amortization attributable to property exploration | **122,095** | 17,995 | **187,948** | 46,075 |
| Change in advances attributable to property exploration | – | (22,909) | **–** | (80,133) |
| Mineral properties | **(4,536,647)** | 204,808 | **(9,382,282)** | 757,272 |
| Recoveries in property from gold sales | **1,213,717** | – | **5,113,529** | – |
| Cash acquired on amalgamation (note 1) | **–** | – | **102,983** | – |
| | **$ (3,922,494)** | $ 101,116 | **$ (6,215,630)** | $ 104,837 |

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

# Continental Gold Limited

**(A Development Stage Company)**
**Interim Statements of Cash Flows**
**(Expressed in U.S. Dollars) (unaudited)**

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| **Financing activities** | | | | |
| Cash proceeds from subscription receipts, net of costs[1] | **$ –** | $ – | **$ 25,669,763** | $ – |
| Cash proceeds from private placement, net of costs[2] | **62,403,435** | – | **62,403,435** | – |
| Cash proceeds from exercise of stock options, warrants, and broker warrants | **4,486,112** | – | **6,894,736** | – |
| Advances to related party | **–** | (32,500) | **12,297** | 27,500 |
| | **66,889,547** | (32,500) | **94,980,231** | 27,500 |
| **Net change in cash and cash equivalents during the period** | **62,935,945** | (178,274) | **84,181,037** | (310,371) |
| **Foreign exchange effect** | **(292,550)** | – | **(292,550)** | – |
| **Cash and cash equivalents, beginning of the period** | **22,848,884** | 240,371 | **1,603,792** | 372,468 |
| **Cash and cash equivalents, end of the period** | **$ 85,492,279** | $ 62,097 | **$ 85,492,279** | $ 62,097 |

**Cash and cash equivalents consist of:**

| | Three Months 2010 | Three Months 2009 | Nine Months 2010 | Nine Months 2009 |
|---|---|---|---|---|
| Cash | **$ 66,809,734** | $ 62,097 | **$ 66,809,734** | $ 62,097 |
| Cash equivalents | **18,682,545** | – | **18,682,545** | – |
| | **$ 85,492,279** | $ 62,097 | **$ 85,492,279** | $ 62,097 |

[1] See note 10(b)(ii)
[2] See note 10(b)(iv)

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

**(Expressed in U.S. Dollars) (unaudited)**

## 1. BASIS OF PRESENTATION

Continental Gold Limited ("Continental Gold") was incorporated under the Companies Act, 1981 (Bermuda) by articles of incorporation dated April 26, 2007. It has no subsidiaries. Continental Gold 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".

On March 30, 2010, Continental Gold and Cronus Resources Ltd. ("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” or “CGL”). Under the terms of the amalgamation agreement, the shareholders of Continental Gold exchanged 2.6973 shares of Continental Gold for receipt of one share of the amalgamated entity and the shareholders of Cronus exchanged 2.35712 shares of Cronus for receipt of one share of the amalgamated entity.

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 Continental Gold owned in excess of 50% of the outstanding shares of the amalgamated entity. In accordance with CICA EIC-10, the substance of the transaction was a capital transaction and was accounted for as a reverse take-over with Continental Gold being identified as the acquirer. In accordance with reverse take-over accounting, the financial statements are a continuance of Continental Gold. Comparative figures presented in the financial statements are those of Continental Gold.

Based on the balance sheet of Cronus at the time of the transaction, the net liabilities at estimated fair values that were acquired by Continental Gold were as follows:

**Net assets (liabilities) acquired:**

| | |
|---|---|
| Cash | $ 102,983 |
| Non-cash working capital (deficiency) | (341,781) |
| | $ (238,798) |

In accordance with CICA EIC-10, the net liabilities in the reverse take-over transaction were charged directly to deficit as a capital transaction.

## 2. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

The Company is a development stage company, as defined by CICA Accounting Guideline 11 that 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 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 outside of North America 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.

## 2. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS (continued)

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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. The Company has a need for equity capital and financing for working capital and exploration and development of its properties. The Company's continuance as a going concern 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 if the Company will attain profitable levels of operation.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

The balance sheet at September 30, 2010 has been derived from the unaudited financial statements at that date but does not include all of the information and footnotes required by Canadian GAAP for complete financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian GAAP. The preparation of the interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the Company's audited annual financial statements except as noted below. The accompanying unaudited interim financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and should be read in conjunction with the Company's unaudited interim financial statements for the nine months ended September 30, 2009 together with the notes thereto, included as Schedule "E" to the "Joint Management Information Circular and Proxy Statement of Cronus Resources Ltd. and Continental Gold Limited" dated February 17, 2010 (the "Amalgamation Circular"). Operating results for the three and nine months ended September 30, 2010, may not be indicative of the results that may be expected for the year ending December 31, 2010.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Future accounting changes**

*International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that publicly accountable, profit-oriented enterprises will be required to report under IFRS for interim and annual financial statements for periods commencing on or after January 1, 2011. Accordingly, the Company will be required to have prepared, in time for its fiscal 2011 first quarter filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2010. This will be an ongoing process as the International Accounting Standards Board and the AcSB continue to issue new standards and recommendations. The Company is in the process of evaluating the potential impact of IFRS on its financial statements. Based on the current guidance provided by regulatory bodies, it is anticipated that the Company's financial results and position as disclosed in its current Canadian GAAP financial statements will not differ significantly from that which is required in accordance with IFRS.

*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. The Company is in the process of evaluating the requirements of the new standards. 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. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. 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 and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the potential impact of this new section.

## 4. 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.

## 4. CAPITAL MANAGEMENT (continued)

The Company considers its capital to be equity, which is comprised of share capital, warrants and broker warrants, contributed surplus and deficit which at September 30, 2010 totalled $124,885,199 (December 31, 2009 - $34,618,626). 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. The Company's capital management objectives, policies and processes have remained unchanged during the three and nine months ended September 30, 2010. The Company is not subject to any capital requirements imposed by a regulator or lending institution.

## 5. FINANCIAL RISK FACTORS

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.

### Credit risk

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, amounts receivable and the related party receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable banks in Colombia, Bermuda and Canada from which management believes the risk of loss to be minimal. Amounts receivable consist of receivables from unrelated parties. The related party receivables consist of amounts due from a company controlled by a director of the Company. Amounts receivable and the related party receivables are current as of September 30, 2010. Management believes that the credit risk concentration with respect to amounts receivable and related party receivables is minimal based on the Company's history with these unrelated parties and the related company.

### 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 has cash and cash equivalents of $85,492,279 (December 31, 2009 - $1,603,792) to settle current liabilities of $1,860,538 (December 31, 2009 - $1,692,290). 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 15.

## 5. FINANCIAL RISK FACTORS (continued)

### 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 recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is the United States 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. As at September 30, 2010, the Company held cash of COL$1,872,457,300 (approximately $517,392) (December 31, 2009 - COL$427,615,627) in Colombian currency, cash of C$69,723,492 (approximately $67,733,493) (December 31, 2009 - $nil) in Canadian currency, amounts and related party receivables of COL$287,825,787 (approximately $158,677) and had accounts payable and accrued liabilities of COL$1,901,580,019 (approximately $1,047,835) (December 31, 2009 - COL$933,517,652).

*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.

### 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 nine-month period:

(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. As at September 30, 2010, had the Canadian dollar strengthened/weakened by 10% against the U.S. dollar with all other variables held constant, the Company's reported net loss for the period ended September 30, 2010 would have been approximately $6,726,000 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 September 30, 2010, 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.

**(Expressed in U.S. Dollars) (unaudited)**

## 5. FINANCIAL RISK FACTORS (continued)

### Fair value

The Company has, for accounting purposes, designated its cash and cash equivalents and marketable securities as held-for-trading, which are measured at fair market value. Amounts receivable and the related party receivables are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair market value due to their short term nature. Accounts payable and accrued liabilities and due to related party are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value due to their short term nature.

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 fair value of amounts due from and to a related party cannot be reasonably determined as there is no comparable market data for this instrument.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at September 30, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ – | $ 85,492,279 | $ – | $ 85,492,279 |
| Marketable securities (note 6(b)) | 1,005,084 | – | – | 1,005,084 |
| | $ 1,005,084 | $ 85,492,279 | $ – | $ 86,497,363 |

## 6. RESTRICTED CASH AND MARKETABLE SECURITIES

### (a) Restricted Cash

Cash and cash equivalents include C$49,819 (2009 – $Nil) held as security against the corporate credit cards by the Company's bank, pledged letters of credit in the amount of $96,930 to support license requirements in Colombia and $211,707 to support a drilling contract.

### (b) Marketable Securities

Marketable securities consisted of the following as at September 30, 2010:

| Security name | Security description | Cost | Fair Value |
|---|---|---|---|
| Waymar Resources Ltd. (note 7) | 1,075,000 common shares | $ 504,874 | **$ 783,514** |
| Waymar Resources Ltd. (note 7) | 500,000 warrants | 154,045 | **221,570** |
| | | $ 658,919 | **$ 1,005,084** |

Marketable securities are classified as held-for-trading and are recorded at fair value using the bid price as at September 30, 2010.

**(Expressed in U.S. Dollars) (unaudited)**

## 7. MINERAL PROPERTIES

| Project | Balance December 31, 2009 | Deferred Expenses (Recoveries) September 30, 2010 | Write-down | Balance September 30, 2010 |
|---|---|---|---|---|
| Anza | **$ 893,272** | $ (587,346) | $ – | **$ 305,926** |
| Arenosa | **583,698** | 107,117 | – | **690,815** |
| Berlin | **12,454,006** | 1,094,532 | – | **13,548,538** |
| Buritica | **18,755,293** | 4,412,445 | – | **23,167,738** |
| Dojura | **1,380,087** | (7,353) | – | **1,372,734** |
| Dominical | **2,758,077** | 153,149 | – | **2,911,226** |
| Lunareja | **1,172,590** | 117 | (1,172,707) | **–** |
| Santander | **428,862** | 116,170 | – | **545,032** |
| Zaragoza | **7,222,443** | (1,036,443) | – | **6,186,000** |
| Total | **$ 45,648,328** | $ 4,252,388 | $ (1,172,707) | **$ 48,728,009** |

On a quarterly basis, management of the Company reviews exploration costs to ensure deferred expenditures include only costs and projects that are eligible for capitalization. For a description of the mineral properties, refer to "Properties – The Colombia Projects" in the Amalgamation Circular. Specific changes to mineral properties that occurred from January 1, 2010 to September 30, 2010 are as follows:

**Buriticá Property**

The Company acquired Mineral Concession No. 7495 from Luis Fernando Palacio Castano pursuant to a purchase agreement between the Company and Mr. Castano dated May 30, 2008. Mineral Concession No. 7495 is part of the Buritica Property. All of the other concessions which comprise the Buritica Property are 100% beneficially owned by the Company. The following is a summary of the purchase agreement:

(a) the total purchase price was $1,900,000 with $100,000 payable on execution (paid in full on May 30, 2008), $200,000 due on the first anniversary (paid in full), $500,000 due on the second anniversary (paid in full) and $1,100,000 due on the third anniversary;

(b) the purchase price payable on the first, second and third anniversaries may be made in an equivalent value of shares of the Company upon notice within twenty days of the payment due date with the value of the shares equal to the average value of the shares in the fifteen days prior to the date of the notice; and

(c) the Company may accelerate the payments at any time.

**Berlin Property**

On January 21, 2010, the Company entered into a purchase agreement with Juan Gonzalo Maya Molina to purchase surface rights over 15 concessions controlled by the Company, in and around the Company's Berlin property. The total purchase price is COL$1,200,000,000 or approximately $630,000. An initial payment COL$150,000,000 ($75,400) was made by the Company on January 21, 2010. A second payment of COL$200,000,000 ($102,472) was made by the Company on April 15, 2010, and the final payment of COL$850,000,000 ($435,506) is due two months after the concessions have been transferred to the Company. Management of the Company believes it will take approximately eight months to complete the transfer of the concessions.

**7. MINERAL PROPERTIES** (continued)

**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") to Waymar Resources Ltd. ("Waymar"). 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 from Waymar pursuant to the option agreement and the letter of intent. Upon signing of the letter of intent on February 19, 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 made a cash payment of $250,000 on July 6, 2010 and issued 300,000 Shares to the Optionors on June 29, 2010, of which $62,500 and 75,000 Shares (valued at $35,224) were paid and issued to the Company. 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 and the third anniversary date, a further $1,500,000 and $2,000,000, respectively, 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. These amounts will be recognized in the statements as monies received.

Waymar also entered into a definitive acquisition agreement dated May 21, 2010 to acquire a 100% legal and beneficial interest in certain other parts of the Anza property covering approximately 21,080 hectares. As consideration, the Company received 1,000,000 Shares (valued at $469,650) and 500,000 share purchase warrants (valued at $154,045) to purchase 500,000 Shares at an exercise price of C$0.75 per Share. The share purchase warrants have an expiry date of June 29, 2012.

**Lunareja Property**

Recently enacted environmental legislation in Colombia has infringed on the development of Lunareja and the Company has decided not to continue work on this property. As a result, the Lunareja property has been written down to zero during the nine months ended September 30, 2010.

**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 Company received a deposit of $100,000 on the execution of the letter of intent. During the period ended September 30, 2010, the purchaser of the property sold a mill to the Company at a cost of $250,000. The Company paid a deposit of $50,000 to the vendor and offset the remaining $200,000 against the $1,400,000 receivable from the sale of the property. It is management's estimate that the receivable will be collected over the next six years with annual payments of $200,000. These payments have been discounted using a credit adjusted risk-free rate of 13%.

**(Expressed in U.S. Dollars) (unaudited)**

## 8. INTANGIBLE ASSETS

Intangible assets consist of the following:

| | Cost | Accumulated Amortization | Net Carrying Amount September 30, 2010 |
|---|---|---|---|
| Web page | $ 3,264 | $ 3,059 | $ 205 |
| Software licences | 226,905 | 71,683 | 155,222 |
| | $ 230,169 | $ 74,742 | $ 155,427 |

| | Cost | Accumulated Amortization | Net Carrying Amount December 31, 2009 |
|---|---|---|---|
| Web page | $ 3,264 | $ 2,267 | $ 997 |
| Software licences | 59,835 | 34,310 | 25,525 |
| | $ 63,099 | $ 36,577 | $ 26,522 |

## 9. EQUIPMENT

Equipment consists of the following:

| | Cost | Accumulated Depreciation | Net Carrying Amount September 30, 2010 |
|---|---|---|---|
| Office equipment | $ 238,474 | $ 61,319 | $ 177,155 |
| Computer equipment | 199,421 | 63,259 | 136,162 |
| Machinery | 1,108,535 | 188,050 | 920,485 |
| Vehicles | 337,484 | 87,852 | 249,632 |
| Mobile building | 8,504 | – | 8,504 |
| | $ 1,892,418 | $ 400,480 | $ 1,491,938 |

| | Cost | Accumulated Depreciation | Net Carrying Amount December 31, 2009 |
|---|---|---|---|
| Office equipment | $ 76,595 | $ 18,655 | $ 57,940 |
| Computer equipment | 82,853 | 31,733 | 51,120 |
| Machinery | 478,169 | 35,791 | 442,378 |
| Vehicles | 163,422 | 59,570 | 103,852 |
| | $ 801,039 | $ 145,749 | $ 655,290 |

**(Expressed in U.S. Dollars) (unaudited)**

## 10. SHARE CAPITAL

(a) **Authorized**

50,000,000,000 common shares with a par value of $0.0001 and 100,000,000 preferred shares with a par value of $0.0001, issuable in series.

(b) **Issued**

| | Number of Shares | Amount |
|---|---|---|
| Balance - December 31, 2009 | 43,499,959 | $ 11,733 |
| Conversion of debenture (i) | 2,000,017 | 200 |
| Shares in lieu of interest (i) | 29,118 | 5 |
| Conversion of subscription receipts (ii) | 19,166,667 | 1,917 |
| Conversion of Cronus shares (iii) | 6,500,008 | – |
| Private placement (iv) | 12,000,000 | 1,200 |
| Exercise of stock options | 1,547,210 | 155 |
| Exercise of warrants | 2,489,481 | 250 |
| Exercise of broker warrants | 563,500 | 57 |
| Balance - September 30, 2010 | 87,795,960 | $ 15,517 |

(i) On November 27, 2009 the Company issued a convertible debenture in the principal amount of C$3,000,000 ($2,849,540), of which C$647,000 in gross proceeds were received from a director and companies controlled by a director of the Company. The debenture accrued interest at Canadian business prime plus 2%. On March 30, 2010, the debenture was converted into 2,029,135 units of the Company upon completion of the Amalgamation. Issue costs associated with the issuance of the convertible debt amounted to $61,421. Pursuant to the Amalgamation, 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. Each warrant has an expiry date of March 30, 2012 and an exercise price of C$1.75 per common share. 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 grant date fair value of the 2,029,135 warrants was estimated at $822,458 using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 1.73% |
| Expected life | 2 years |

**(Expressed in U.S. Dollars) (unaudited)**

**10. SHARE CAPITAL** (continued)

(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 ($28,200,875). 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. Each full warrant has an exercise price of C$2.25 and an expiry date of March 30, 2011.

In addition, the underwriters received a cash commission of 7% of gross proceeds C$2,012,500 ($1,974,072) and 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 two years. Each unit consisted of one common share and one-half of one common share purchase warrant of the amalgamated company. Each full warrant has an exercise price of C$2.25 for a period of one year.

The grant date fair value of the 9,583,334 warrants and 1,341,667 broker warrants was estimated at $2,635,000 and $765,154 respectively using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 1.63% |
| Expected life | 1 year |

(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 $nil. In addition, 4,453,750 warrants of Cronus were exchanged at a rate of 2.35712 Cronus warrants for one warrant of the amalgamated entity. This resulted in the issuance of 1,889,488 warrants of the Company valued at $nil.

(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 ($66,628,440). Each unit consisted of one common share and one-half of one common share purchase warrant. Each full 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 C$3,591,000 ($3,497,993) and 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. Each unit consist of one common share and one-half of one common share purchase warrant. Each full warrant has an exercise price of C$7.50 for a period of two years.

The grant date fair value of the 6,000,000 warrants and 720,000 broker warrants was estimated at $10,291,000 and $2,631,728 respectively using the Black-Scholes option pricing formula with the following assumptions:

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

**(Expressed in U.S. Dollars) (unaudited)**

## 11. WARRANTS AND BROKER WARRANTS

The September 30, 2010 Canadian to U.S. dollar (C$/US$) Bank of Canada noon spot exchange rate of 0.9718 Canadian dollars per U.S. dollar (C$/US$) was used in the following tables:

### (a) Warrants

The following table shows the continuity of warrants for the nine months ended September 30, 2010:

| | Number of Warrants | Weighted Average Exercise Price | |
|---|---|---|---|
| Balance - December 31, 2009 | 7,847,181 | $ 0.98 | |
| Granted (Note 10(b)(i)) | 2,029,135 | 1.70 | (C$1.75) |
| Granted (Note 10(b)(ii)) | 9,583,334 | 2.19 | (C$2.25) |
| Granted (Note 10(b)(iv)) | 6,000,000 | 7.29 | (C$7.50) |
| Granted [(1)] | 281,750 | 2.19 | (C$2.25) |
| Conversion of Cronus warrants (Note 10(b)(iii)) | 1,889,488 | 1.02 | (C$1.09) |
| Exercised | (2,489,481) | 1.78 | (C$1.83) |
| Expired | (52,238) | 2.01 | (C$2.07) |
| Balance - September 30, 2010 | 25,089,169 | $ 2.95 | |

(1) During the nine months ended September 30, 2010, 281,750 warrants were issued as a result of the exercise of 563,500 broker warrants. These warrants have an exercise price of C$2.25 and expire on March 30, 2011. The grant date fair value of the 281,750 warrants was estimated at $409,125 using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 1.21 - 1.87% |
| Expected life | 0.59 - 0.80 year |

The following are the warrants outstanding at September 30, 2010:

| Number of Warrants | Grant Date Black-Scholes Value | Exercise Price ($) | | Expiry Date |
|---|---|---|---|---|
| 74,243 | $ – | 0.34 | (C$0.35) | February 5, 2011 |
| 8,535,917 | 2,678,662 | 2.19 | (C$2.25) | March 30, 2011 |
| 281,065 | – | 0.34 | (C$0.35) | April 21, 2011 |
| 106,063 | – | 0.91 | (C$0.94) | July 27, 2011 |
| 328,791 | – | 0.91 | (C$0.94) | August 5, 2011 |
| 7,782,995 | 3,103,510 | 0.98 | | March 30, 2012 |
| 1,980,095 | 802,580 | 1.70 | (C$1.75) | March 30, 2012 |
| 6,000,000 | 10,291,000 | 7.29 | (C$7.50) | September 16, 2012 |
| 25,089,169 | $ 16,875,752 | | | |

**(Expressed in U.S. Dollars) (unaudited)**

## 11. WARRANTS AND BROKER WARRANTS (continued)

### (b) Broker warrants

The following table shows the continuity of broker warrants for the nine months ended September 30, 2010:

| | Number of Warrants | Weighted Average Exercise Price | |
|---|---|---|---|
| Balance - December 31, 2009 | – | $ – | |
| Granted (Note 10(b)(ii)) | 1,341,667 | 1.46 | (C$1.50) |
| Granted (Note 10(b)(iv)) | 720,000 | 5.54 | (C$5.70) |
| Exercised | (563,500) | 1.46 | (C$1.50) |
| Balance - September 30, 2010 | 1,498,167 | $ 3.42 | |

The following are the broker warrants outstanding at September 30, 2010:

| Number of Warrants | Grant Date Black-Scholes Value | Exercise Price ($) | | Expiry Date |
|---|---|---|---|---|
| 778,167 | $ 443,790 | 1.46 | (C$1.50) | March 30, 2011 |
| 720,000 | 2,631,728 | 5.54 | (C$5.70) | September 16, 2012 |
| 1,498,167 | $ 3,075,518 | | | |

## 12. STOCK OPTIONS

The following table shows the continuity of options for the nine months ended September 30, 2010:

| | Number of Options | Weighted Average Exercise Price | |
|---|---|---|---|
| Balance - December 31, 2009 | 2,113,224 | $ 0.98 | |
| Granted (*)(i)(iii)(iv)(v)(vi)(vii) | 4,964,725 | 1.88 | (C$1.94) |
| Conversion of Cronus options (ii) | 400,379 | 0.69 | (C$ 0.73) |
| Exercised | (1,547,210) | 1.09 | |
| Expired/Forfeited | (171,704) | 1.11 | |
| Balance - September 30, 2010 | 5,759,414 | $ 1.70 | |

(*) The weighted average grant date fair value of each stock option grant during the period ended September 30, 2010 was $1.34.

**(Expressed in U.S. Dollars) (unaudited)**

**12. STOCK OPTIONS** (continued)

(i) On March 30, 2010, the Company granted 3,414,725 stock options to officers, directors, employees and consultants of the Company at an exercise price of C$1.50 ($1.41). Of the 3,414,725 stock options, 250,000 expire on March 30, 2013 and the remaining 3,164,725 expire on March 30, 2015. All the stock options have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. The grant date fair value of $3,069,783 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.03 - 2.92% |
| Expected life | 3 - 5 years |

(ii) 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 amalgamated entity. This resulted in the issuance of 400,379 stock options of the Company valued at $nil.

(iii) On May 10, 2010, the Company granted 800,000 stock options to directors of the Company at an exercise price of C$2.35 ($2.21) which expire on May 10, 2015. These stock options have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. The grant date fair value of $1,408,000 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.91% |
| Expected life | 5 years |

(iv) On May 11, 2010, the Company granted 350,000 stock options to an officer of the Company at an exercise price of C$2.70 ($2.62) which expire on May 11 2015. These stock options have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. The grant date fair value of $666,750 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.56% |
| Expected life | 5 years |

**(Expressed in U.S. Dollars) (unaudited)**

## 12. STOCK OPTIONS (continued)

(v) On June 1, 2010, the Company granted 200,000 stock options to an officer of the Company at an exercise price of C$2.45 ($2.30) which expire on June 1, 2015. These stock options have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. The grant date fair value of $392,000 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.61% |
| Expected life | 5 years |

(vi) On September 1, 2010, the Company granted 150,000 stock options to consultants of the Company at an exercise price of C$5.80 ($5.64) which expire on September 1, 2015. These stock options have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. The grant date fair value of $620,100 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.10% |
| Expected life | 5 years |

(vii) On September 14, 2010, the Company granted 50,000 stock options to an employee of the Company at an exercise price of C$6.11 ($5.94) which expire on September 14, 2015. These stock options have vesting terms of 1/4 immediately and 1/4 every three months from the date of grant. The grant date fair value of $209,950 was estimated using the Black-Scholes option pricing formula with the following assumptions:

| | |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 2.22% |
| Expected life | 5 years |

**(Expressed in U.S. Dollars) (unaudited)**

## 12. STOCK OPTIONS (continued)

The following table shows the options outstanding at September 30, 2010:

| | Outstanding | | | | | |
|---|---|---|---|---|---|---|
| **Estimated Grant Date Fair Value** | **Number of Options Outstanding** | **Weighted Average Exercise Price ($)** | | **Weighted Average Remaining Contractual Life (years)** | **Number of Options Exercisable** | **Expiry Date** |
| – | 4,242 | 0.40 | (C$0.41) | 0.50 | 4,242 | March 30, 2011 |
| – | 10,606 | 0.91 | (C$0.94) | 0.98 | 10,606 | September 22, 2011 |
| – | 10,606 | 0.91 | (C$0.94) | 1.22 | 10,606 | December 19, 2011 |
| – | 10,606 | 1.55 | (C$1.60) | 1.94 | 10,606 | September 7, 2012 |
| – | 42,425 | 0.82 | (C$0.84) | 2.61 | 42,425 | May 9, 2013 |
| – | 84,849 | 0.40 | (C$0.41) | 3.59 | 84,849 | May 4, 2014 |
| 2,795,493 | 2,881,952 | 1.46 | (C$1.50) | 4.50 | 1,299,589 | March 30, 2015 |
| 1,408,000 | 800,000 | 2.28 | (C$2.35) | 4.61 | 200,000 | May 10, 2015 |
| 392,000 | 200,000 | 2.38 | (C$2.45) | 4.67 | 50,000 | June 1, 2015 |
| 666,750 | 350,000 | 2.62 | (C$2.70) | 4.61 | 87,500 | May 11, 2015 |
| 620,100 | 150,000 | 5.64 | (C$5.80) | 4.92 | 37,500 | September 1, 2015 |
| 209,950 | 50,000 | 5.94 | (C$6.11) | 4.96 | 12,500 | September 14, 2015 |
| 847,800 | 1,164,128 | 0.98 | | 8.34 | 1,164,128 | January 29, 2019 |
| $ 7,157,093 | 5,759,414 | 1.70 | | 5.28 | 3,014,551 | |

## 13. ASSET RETIREMENT OBLIGATION

The Company’s asset retirement obligation (“ARO”) is based on management’s estimates 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.

The Company has estimated its total asset retirement obligation to be $65,000 at September 30, 2010 (December 31, 2009 - $59,000) based on a total future liability of approximately $328,000 and a credit adjusted risk-free rate of 13%. Reclamation is expected to occur in the year 2023.

## 14. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2010, aggregate legal fees included in professional fees on the statement of operations and comprehensive loss, of $nil and $30,703 (2009 - $20,000 and $86,531) were charged by a law firm in which a former director of the Company is a partner. As at September 30, 2010, included in accounts payable and accrued liabilities are fees amounting to $nil (December 31, 2009- $68,525) payable to this law firm.

During the three and nine months ended September 30, 2010, aggregate technical consulting fees included in professional fees on the statement of operations and comprehensive loss, of $nil and $15,000 (2009 - $27,000 and $74,225) were charged by a former director of the Company. As at September 30, 2010, included in accounts payable and accruals are fees amounting to $nil (December 31, 2009- $63,600) payable to this individual.

During the three and nine months ended September 30, 2010, aggregate gold sales to a refinery company controlled by a director of the Company amounted to $1,213,717 and $5,113,529 (2009 - $2,153,240 and $5,363,306) and are reported as a reduction to mineral properties on the balance sheet. As of September 30, 2010 the refinery company owed the Company $nil (December 31, 2009 – $215,474) which is included in related party receivables.

The Company received consulting services from Grupo de Bullet S.A. ("Grupo"), a company controlled by a director of the Company, during the three and nine months ended September 30, 2010 in the amount of $nil and $274,750 (2009 - $nil), which is included in professional fees on the statement of operations. The amount owing by the Company to Grupo as at September 30, 2010 is $nil (December 31, 2009 – $119,453 which is included in due to related party). In addition, during the nine months ended September 30, 2010, the Company made advances to Grupo in the amount of $162,190 (September 30, 2009 - $nil) repayable on April 1, 2011 and accrues interest at Libor.

The Company purchased drilling services for the three and nine months ended September 30, 2010 from Terra Colombia S.A., a company with a common director, at a cost of $nil and $73,995 (2009 - $232,063 and $709,488), which were capitalized to mineral properties.

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 C$1.50 and an expiry date of March 30, 2015.

On May 10, 2010, the Company issued 800,000 stock options to officers and directors of the Company. The stock options have an exercise price of C$2.35 and an expiry date of May 10, 2015.

The Company shares office space with a company with a common officer and contributed C$67,785 and C$89,573, respectively, during the three and nine months ended September, 2010 (2009 - $nil).

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.

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$2,394,501 ($2,348,767) (see note 10(b)(ii)).

On February 11, 2010, officers and directors of the Company purchased 593,602 units in the Company for gross proceeds of C$890,403 ($873,397) (see note 10(b)(ii)).

**(Expressed in U.S. Dollars) (unaudited)**

## 15. COMMITMENTS AND CONTINGENCIES

On July 10, 2009, the Company entered into a five-year mining agreement with Sociedad Bettel S.A ("Sociedad"), an arm's length party. Under the terms of this agreement, Sociedad will perform the activities required for the technical and economic exploitation of mineralization in an Arenosa mining concession owned by the Company in the Remedios municipality. In the event that the Company sells the mining concession and Sociedad cannot continue mining operations, Sociedad will receive as compensation double the realized investment for the construction and setup of the mining plant. The expected maximum amount is COL$500,000,000 (approximately $260,000).

On April 20, 2010, the Company entered into a five-year lease agreement for office facilities in Toronto. The Company's gross annual rent commenced September 1, 2010 and will be approximately C$167,500 ($157,333) depending upon actual operating costs for the building.

**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.

## 16. SEGMENTED FINANCIAL INFORMATION

The Company has been directly or indirectly engaged in the exploration and development of mineral properties in Colombia.

The Company's operating segments have been identified based on geographic area. There are no revenues in Bermuda or Colombia and mineral properties are disclosed in note 7.

| September 30, 2010 | Canada | Bermuda | Colombia | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 83,008,309 | $ 1,966,578 | $ 517,392 | $ 85,492,279 |
| Other assets | 1,123,095 | 84,997 | 2,403,492 | 3,611,584 |
| Intangible assets | – | 119,601 | 35,826 | 155,427 |
| Equipment | – | 8,208 | 1,483,730 | 1,491,938 |
| Mineral properties | – | – | 48,728,009 | 48,728,009 |
| | $ 84,131,404 | $ 2,179,384 | $ 53,168,449 | $ 139,479,237 |

(Expressed in U.S. Dollars) (unaudited)

## 16. SEGMENTED FINANCIAL INFORMATION (continued)

| December 31, 2009 | Canada | Bermuda | Colombia | Total |
|---|---|---|---|---|
| Cash | $ – | $ 1,396,678 | $ 207,114 | $ 1,603,792 |
| Other assets | – | – | 754,484 | 754,484 |
| Intangible assets | – | 19,624 | 6,898 | 26,522 |
| Equipment | – | – | 655,290 | 655,290 |
| Mineral properties | – | – | 45,648,328 | 45,648,328 |
| | $ – | $ 1,416,302 | $ 47,272,114 | $ 48,688,416 |

## 17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period financial statement presentation.

## 18. SUBSEQUENT EVENTS

From October 1 to November 9, 2010, the Company received aggregate proceeds of C$7,086,964 from the exercise of 4,174,518 warrants (including from the accelerated warrants announced on September 20, 2010), C$784,125 from the exercise of 522,750 broker warrants and C$161,527 from the exercise of 133,901 stock options.