



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION  
AND RESULTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the activities, financial condition and results of the operations of Continental Gold Limited (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2011. This discussion, dated November 9, 2011, should be read in conjunction with the unaudited interim financial statements of the Company for the three and nine months ended September 30, 2011, and the audited financial statements for the year ended December 31, 2010, together with the notes thereto. Commencing January 1, 2011, the Company began reporting under International Financial Reporting Standards ("IFRS"). The unaudited interim financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with IFRS with comparative information for 2010 restated under IFRS (refer to note 13 in the unaudited interim financial statements for the three and nine months ended September 30, 2011 for reconciliations from Canadian generally accepted accounting principles ("GAAP") to IFRS). All dollar amounts in this MD&A are in United States dollars, unless stated otherwise. References to C\$ and COP are to Canadian dollars and Colombian pesos, respectively. Information contained herein is presented as of November 9, 2011 unless otherwise indicated. Further information about the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking 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, estimates of concentration of mineralization, mineral resource quantities, mineral resource qualities, the potential scope and context of the mineralized area, the potential for upgrading the mineral resource estimate, the future price of gold and other mineral commodities, success of exploration activities, cost and timing of future exploration and development, 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", "is projected", "anticipates" or "does not anticipate", "believes", "targets" or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results "may", "could", "should", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of historical trends, current conditions and expected future 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) failure to establish estimated mineral resources; (ii) the grade, quality, concentration and recovery of mineral resources varying from estimates; (iii) risks related to the exploration stage of the Company's properties; (iv) the possibility that future exploration results will not be consistent with the Company's expectations (including

identifying additional and/or deeper mineralization); (v) changes in the price of gold; (vi) changes in equity markets; (vii) political developments in Colombia; (viii) uncertainties relating to the availability and costs of financing needed in the future (see "Liquidity, Capital Resources and Business Prospects"); (ix) changes to regulations affecting the Company's activities; (x) delays in obtaining or failures to obtain required regulatory approvals; (xi) the uncertainties involved in interpreting drilling and exploration results and other geological data and other factors (including exploration, development and operating risks); (xii) 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; (xiii) management's assessment of future plans for the Buriticá project (see "Liquidity, Capital Resources and Business Prospects"); (xiv) management's economic outlook regarding future trends; (xv) the Company's status as a corporation incorporated in a jurisdiction outside of Canada; (xvi) the availability of skilled labour; (xvii) the timing and the amount of the expected budget (see "Buriticá Project" under "Exploration Summary", and "Liquidity, Capital Resources and Business Prospects"); (xviii) the Company's ability to meet its fiscal 2011 and 2012 planned expenditures (see "Liquidity, Capital Resources and Business Prospects"); (xix) estimates with respect to the mineralization at the Company's projects; and (xx) sensitivity analysis on financial instruments which may vary from amounts disclosed (see "Financial Instruments and Related Risks").

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.

## **EXECUTIVE SUMMARY**

Continental Gold Limited (TSX: CNL) is an advanced-stage exploration and development company with nine gold projects covering over 200,000 hectares, including assets held for sale as at September 30, 2011, in highly-prospective areas with known historical gold production in Colombia.

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

## THIRD QUARTER 2011 HIGHLIGHTS

Advancement of the exploration program at the Buriticá project:

- On September 15, 2011, the Company announced a maiden National Instrument 43-101 ("NI 43-101") compliant gold, silver and zinc mineral resource estimate for the Yaragua and Veta Sur vein systems. The mineral resource estimate is based on 54,200 metres of drilling and 1,600 metres of underground sampling (as at June 30, 2011). The combined Yaragua and Veta Sur mineral resource estimates reported 630,000 ounces of gold (average grade of 17.8 g/t), 1,500,000 ounces of silver (average grade of 42 g/t) and 18,700,000 pounds of zinc (average grade of 0.8%) in the measured and indicated category and 2,500,000 ounces of gold (average grade of 11.4 g/t), 9,500,000 ounces of silver (average grade of 43 g/t) and 88,000,000 pounds of zinc (average grade of 0.6%) in the inferred category. For additional details, please refer to the Company's NI 43-101 compliant technical report entitled "Mineral Resource Estimate of the Buriticá Gold Project, Colombia", dated October 24, 2011 (the "Technical Report"), available on the Company's website at [www.continentalgold.com](http://www.continentalgold.com) and under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).
- Completed 17,210 metres of diamond drilling during the third quarter of 2011 for an overall project life total of over 84,000 metres to the end of September 2011 and over 90,000 metres through early November 2011. Drilling confirmed and expanded the Yaragua and Veta Sur zones.
- Drill results in the Veta Sur system included BUSY-163 which intersected 18.1 metres of 24.9 g/t gold and 63 g/t silver, BUSY-167 which intersected 25.45 metres of 12.2 g/t gold and 57 g/t silver and BUSY-180 which intersected 2.1 metres of 21.3 g/t gold and 31 g/t silver.
- Drill results in the Yaragua system included BUSY-178 which intersected 6.6 metres of 6.0 g/t gold and 35 g/t silver and BUSY-182 which intersected 4.5 metres of 9.8 g/t gold and 7 g/t silver.
- Drilling of the first deep diamond drill holes commenced at Buriticá with a large surface drill capable of testing the system to at least the 900-metre level. The first two deep drill-holes including BUSY-210 and BUSY-221 (awaiting assays) encountered base metal carbonate mineralization at elevations more than 350 metres deeper than any previous drill-hole.
- Expanded strike lengths and vertical extents of the Yaragua and Veta Sur zones to 570 metres x 600 metres and 500 metres x 900 metres including the latest visual intercept, respectively, both of which are still open laterally and at depth.
- The Company submitted an environmental impact assessment (EIA) with the environmental authorities to seek approval to begin construction of a one kilometre ramp starting in the Higabra valley. The ramp will initially be used for further exploration and eventually used for commercial purposes. The Company expects to receive the environmental permit and to begin construction in the second quarter of 2012.
- Environmental baseline program, metallurgical, hydrological and geo-mechanical testing are underway.

Other highlights:

- On July 14, 2011, the Company announced the promotion of Mark Moseley-Williams to President and Chief Operating Officer.

Subsequent to the quarter ended September 30, 2011:

- On October 20, 2011, the Company announced drill results including BUSY-189 in the Yaragua system, which intersected 8.1 metres of 137.5 g/t gold and 24 g/t of silver, demonstrating that the system remains open to the east of the current resource model. BUSY-193 in the Veta Sur system intersected 30 metres of 20.0 g/t gold and 33 g/t silver extending a thick high-grade subzone deep in Veta Sur to over 60 metres of strike length and remains open laterally and vertically.
- On October 27, 2011, the Company filed a NI 43-101 mineral resource estimate report on the Yaragua and Veta Sur vein systems within the Buriticá project, as announced in its news release dated September 15, 2011. The technical report is available on the Company's website at [www.continentalgold.com](http://www.continentalgold.com) and under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).
- On October 27, 2011, the Company announced the latest metallurgical results, conducted by an independent third party, on eight composite samples from the Buriticá Project. The principal conclusions were that composite samples studied are amenable to gold recovery by (1) gravity concentration followed by cyanidation on the gravity tails or (2) gravity concentration followed by flotation on the gravity tails or (3) selective flotation of lead/gold/silver followed by zinc flotation on previously unprocessed material. Total recoveries range from 97.2 percent to 99.85 percent incorporating gravity concentration, flotation and cyanidation.
- On October 27, 2011, the Company transferred its Arenosa and Zaragosa properties to Minerales OTU S.A.S. ("OTU"), a Colombian company controlled by a director of the Company, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU). Prior to the transfer, OTU held mineral properties in the vicinity of the Company's Arenosa and Zaragosa properties. The Company, along with a company controlled by a director of the Company, intends to market the properties with the intent of divesting a portion of or all of its equity interest in OTU. As a result, as at September 30, 2011, the Company has classified its interests in the Arenosa and Zaragosa properties as assets held for sale.

## SUMMARIZED FINANCIAL RESULTS

(in 000's of U.S. Dollars)	<b>September 30</b>		December 31	
	<b>2011</b>		2010	
	\$		\$	
<b>Financial Position</b>				
Cash	<b>88,048</b>		97,208	
Exploration and evaluation assets	<b>74,715</b>		54,809	
Assets held for sale	<b>7,663</b>		-	
Total assets	<b>179,102</b>		159,136	
Equity	<b>156,416</b>		52,484	
<hr/>				
(in 000's of U.S. Dollars)	<b>Three months ended</b>		Nine months ended	
	<b>September 30</b>		September 30	
	2011		2011	
	2010		2010	
	\$		\$	
<b>Operating Results</b>				
Net income (loss)	<b>(4,011)</b>	(43,719)	<b>22,052</b>	(77,472)
Adjusted net loss *	<b>(8,923)</b>	(3,828)	<b>(12,439)</b>	(9,339)
<b>Cash Flow</b>				
Investment in exploration and evaluation assets	<b>(8,009)</b>	4,574	<b>(21,320)</b>	9,403
Cash flows from financing activities	<b>258</b>	66,889	<b>20,025</b>	94,968
Net cash flow	<b>(7,748)</b>	62,936	<b>(6,104)</b>	84,181

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

The Company's total assets as at September 30, 2011 was \$179.1 million compared to \$159.1 million as at December 31, 2010 and \$185.1 million as at June 30, 2011. The change is mainly a result of the purchase of properties (completed during the second quarter of 2011) through the issuance of shares as partial consideration and unrealized foreign exchange losses related to the revaluation of monetary assets and changes to cash and cash equivalents.

Cash and cash equivalents as at September 30, 2011 was \$88.0 million compared to \$97.2 million at December 31, 2010 and \$101.2 million at June 30, 2011. The decrease during the quarter is mainly a result of investments in exploration and evaluation of assets and unrealized foreign exchange losses relating to the revaluation of Canadian dollar cash balances. The increase for the nine months ended September 30, 2011 is mainly attributable to \$20.0 million of cash generated from the exercise of warrants, broker warrants and stock options, offset in part by administrative expenses, investment in the Company's exploration projects, including the payment of \$2.0 million as partial consideration for the purchase of properties during the second quarter, and unrealized foreign exchange losses relating to the revaluation of Canadian dollar cash balances.

Net income for the three and nine months ended September 30, 2011 includes a gain of \$4.9 million and \$34.5 million, respectively, related to the revaluation of Canadian dollar-denominated warrants compared to a loss of \$39.9 million and \$57.9 million recorded for the same respective periods in 2010. Changes in the fair values of Canadian dollar-denominated warrants mainly reflect the decline in the Company's share price to C\$6.64 on September 30, 2011 from C\$7.34 on June 30, 2011 and C\$10.00 on December 31, 2010. In 2010, the Company's share price increased to C\$6.95 on September 30, 2010 from a pre-amalgamation share price of C\$1.50.

Adjusted net loss (a non-GAAP measure, representing net income (loss) before gain (loss) on Canadian dollar-denominated warrants and loss on reverse acquisition) for the three and nine months ended September 30, 2011 was \$8.9 million and \$12.4 million, respectively, compared to a loss of \$3.8 million and \$9.3 million for the same respective periods in 2010. The change is primarily due to an increase in share-based payments and unrealized foreign exchange losses on Canadian dollar cash balances.

The Company has no long-term financial liabilities, off-balance sheet financing arrangements or material contingent liabilities or contractual obligations, other than the equity tax liability and the Canadian dollar-denominated warrants (which is classified as derivative financial liabilities and measured at fair value with changes in fair value recognized in the statement of operations and comprehensive income (loss)). Excluding the impact of revaluations for financial liabilities and foreign exchange on Canadian dollar cash balances, the Company expects to continue to incur losses until commercial mining operations from its exploration and evaluation assets have commenced.

## **DESCRIPTION OF THE BUSINESS**

The Company is an advanced-stage exploration and development company engaged in the acquisition, exploration, evaluation and development of principally gold resource properties in Colombia. The Company holds the rights to explore and develop nine properties in Colombia, including assets held for sale at September 30, 2011, totaling approximately 87,508 hectares, has pending registration concessions totaling 63,993 hectares and has pending concession applications totaling 48,977 hectares. There is no guarantee that the Company will be granted the pending concession applications. Currently, the Company's primary focus is on its Buriticá project. The Company is governed by the laws of Bermuda and is a reporting issuer in Canada under applicable securities legislation of Ontario, Alberta and British Columbia. It carries on its operations through a branch office in Medellín, Colombia. The Company's issued and outstanding common shares, as well as the warrants issued pursuant to the September 16, 2010 equity financing, are listed on the Toronto Stock Exchange ("TSX") under the symbols "CNL" and "CNL-WT", respectively.

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

## EXPLORATION SUMMARY

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

(in 000's of U.S. Dollars)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Buriticá	5,681	3,617	19,536	5,299
Berlin	(11)	576	263	1,095
Arenosa	24	23	100	107
Dominical	88	12	312	153
Santander	24	35	40	116
Zaragoza	1,044	26	1,333	762
Anza	1	(35)	(104)	240
Dojura	-	-	(117)	(7)
Lunareja	11	-	11	-
Generation	16	-	16	-
	<b>6,878</b>	4,254	<b>21,390</b>	7,765

### Buriticá Project

The Buriticá project encompasses an aggregate area of 29,329 hectares and is located about 75 kilometres northwest of Medellín in the Antioquia Department of north-western Colombia. The project area is comprised of 23 registered concessions covering 10,379 hectares and 14 pending registration concessions totaling 18,524 hectares. A further concession application has been submitted covering 426 hectares. As in the case of all the Company's properties, concession applications in process give the Company priority on the properties in question during the application process. The Buriticá project includes the Yaragua Mine that had previously been under small-scale production by the Company and is now also utilized for underground exploration development and a bulk sample testing operation.

Drilling activities continued through September 30, 2011. The Company completed 17,210 metres of diamond drilling in 38 holes in the third quarter of 2011. Definition drilling on a 25 to 50-metre grid continued in the Yaragua area and on the Veta Sur vein package, and step-out drilling continued in both areas. Areas defined by soil anomalies to the north and south of currently known mineralization were drilled in a reconnaissance fashion.

Drilling continues with ten drill rigs at the project, including a larger surface drill rig capable of testing the system to at least a 900-metre depth, and 44,793 metres have been completed to date in 2011 for an overall project total of over 90,000 metres. Drilling is scheduled to continue throughout the rest of 2011 and into fiscal 2012 at a pace of 5,000 metres per month.

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

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

Many of the pre-development activities at Buriticá continued during the third quarter of 2011. The first stage of the hydrological study continued and results should be available later in the year. Bid packages for the construction of the production tunnel that will be built at the bottom of the Higabra Valley were received and a contractor was selected. The environmental impact assessment (EIA) that will modify the existing environmental permits to allow for the construction of the tunnel was submitted to the environmental authorities during the quarter. The Company expects to receive the environmental permit early in fiscal 2012 and construction will begin immediately thereafter.

During the three and nine months ended September 30, 2011, the Company incurred \$7.8 million and \$23.4 million of deferred exploration and development costs, respectively (September 30, 2010 - \$4.8 million and \$10.4 million, respectively), including \$0.9 million and \$3.4 million of capitalized share-based payments, respectively (September 30, 2010 - \$0.6 million and \$1.2 million, respectively). Gold sales resulting from exploration work and drifting in ore at the Buriticá project amounted to \$2.2 million and \$3.9 million for the three and nine month periods ended September 30, 2011, respectively (September 30, 2010 - \$1.2 million and \$5.1 million, respectively) and are treated as a capital credit as they support ongoing exploration of the Buriticá project and, accordingly, are not included as a revenue item in the Company's statement of operations and comprehensive income (loss). As a result, net project expenditures for the three and nine months ended September 30, 2011 totaled \$5.7 million and \$19.5 million, respectively (September 30, 2010 - \$3.6 million and \$5.3 million, respectively).

In addition to exploration expenditures incurred during the third quarter and the first nine months of the year, the Company also completed a land acquisition transaction during the second quarter including mineral concession contracts and rights to mineral applications adjacent to the Buriticá project from the Chairman of the Company, of which \$4.8 million of the purchase cost was attributed and allocated to Buriticá.

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

### **Dominical Project**

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

Exploration activities, including surface mapping and sampling, continued on the property through the third quarter of 2011. Exploration focused on the La Playa vein zone where a 100 to 300-metre wide structural corridor, containing multiple intermediate sulfidation quartz and quartz-carbonate veins, has been outlined along a 1.8 kilometre trend. The polymetallic veins are characterized by an Au-Ag-Zn-Pb-Cu metal association. Surface exploration is planned throughout the rest of 2011 along with a property-wide helicopter supported geophysical program of magnetic and radiometrics to define additional vein and porphyry-style targets.

In addition to exploration expenditures, the Company also completed a land acquisition transaction during the second quarter including concession contracts adjacent to the

Dominical project from the Chairman of the Company, of which \$1.6 million of the purchase cost was attributed and allocated to the Dominical project.

### **Berlin Project**

The Berlin project covers an aggregate area of 26,588 hectares. The project is comprised of seven registered concessions totaling 14,477 hectares, five pending registration concessions totaling 10,740 hectares and five concession applications totaling 1,371 hectares. The project area is located 90 kilometres north of Medellín in the Antioquia Department.

No work was performed at the Berlin project during the third quarter of 2011 but the Company hopes to be able to initiate a diamond drilling campaign in fiscal 2012.

For the three and nine months ended September 30, 2011, activity for the Berlin project amounted to nil and \$0.3 million, respectively, compared to \$0.6 million and \$1.1 million for the same periods in 2010, the majority of which related to land payments.

### **Dojura Project**

The Dojura project covers an aggregate area of 44,893 hectares. The project is comprised of three registered concessions totaling 12,725 hectares, five pending registration concessions totaling 14,100 hectares and five concession applications totaling 18,068 hectares, and is subject to an option agreement dated October 4, 2006 between AngloGold Ashanti Limited ("AngloGold") and Robert Allen, the Chairman of the Company. The option agreement was assigned to the Company by Mr. Allen by way of an assignment agreement dated June 4, 2008.

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, putting the existing contract under force majeure.

No exploration activity occurred during the third quarter of 2011.

### **Santander Project**

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

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

### **Anza Project**

The Anza project is located 50 kilometres west of Medellín in the Antioquia Department and covers an aggregate area of 6,309 hectares. The project consists of two registered concessions covering 6,309 hectares. The project is subject to an option agreement with Waymar Resources Ltd. ("Waymar") and five other parties ("Optionors") pursuant to which

Waymar is obligated to incur certain exploration expenditures on the property. The Company is entitled to receive 25% of all consideration flowing to the Optionors from Waymar, pursuant to the option agreement, until 2013. On June 29, 2011, the Company received option payments of \$0.1 million in cash and 125,000 shares of Waymar (valued at \$0.1 million). Option payments received exceeded book values for the project at that time and as a result \$0.1 million was recognized in other income in the statement of operations and comprehensive income (loss) in the second quarter. Subsequent expenditures continue to be capitalized.

### **Arenosa Project**

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

On October 27, 2011, the Company transferred its Arenosa and Zaragosa properties to OTU, a Colombian company controlled by a director of the Company, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU). Prior to the transfer, OTU held mineral properties in the vicinity of the Company's Arenosa and Zaragosa properties. The Company, along with a company controlled by a director, intends to market the properties with the intent of divesting a portion of or all of its equity interest in OTU. As a result, as at September 30, 2011, the Company has classified its interest in the Arenosa and Zaragosa properties as assets held for sale.

### **Zaragoza Project**

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

On October 27, 2011, the Company transferred its Arenosa and Zaragosa properties to OTU, a Colombian company controlled by a director of the Company, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU). Prior to the transfer, OTU held mineral properties in the vicinity of the Company's Arenosa and Zaragosa properties. The Company, along with a company controlled by a director, intends to market the properties with the intent of divesting a portion of or all of its equity interest in OTU. As a result, as at September 30, 2011, the Company has classified its interest in the Arenosa and Zaragosa properties as assets held for sale.

### **Lunareja Project**

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

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

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

## FINANCIAL RESULTS

The following is a summary of the Company's financial operating highlights for the three and nine months ended September 30, 2011 and 2010:

(000's of U.S. Dollars, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net income (loss)	<b>(4,011)</b>	(43,719)	<b>22,052</b>	(77,472)
Income (loss) per share, basic	<b>(0.04)</b>	(0.58)	<b>0.21</b>	(1.21)
Income (loss) per share, fully diluted	<b>(0.04)</b>	(0.58)	<b>0.19</b>	(1.21)
Adjusted net loss*	<b>(8,923)</b>	(3,828)	<b>(12,439)</b>	(9,339)
Adjusted net loss per share, basic and fully diluted	<b>(0.08)</b>	(0.05)	<b>(0.12)</b>	(0.15)

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

The Company's net income (loss) for the three and nine months ended September 30, 2011 amounted to \$4.0 million net loss (\$0.04 per share) and \$22.1 million net income (\$0.21 per share), respectively, compared with a net loss of \$43.7 million (\$0.58 per share) and net loss of \$77.5 million (\$1.21 per share) for the same periods in 2010, and includes the following items:

- Gain on Canadian dollar-denominated warrants for the three and nine months ended September 30, 2011 was \$4.9 million and \$34.5 million, respectively (three and nine months ended September 30, 2010 – loss of \$39.9 million and \$57.9 million, respectively). The changes are attributable to the revaluation of the warrants from previous values recorded. The valuation of warrants is subjective and can impact net income (loss) significantly.
- Loss on reverse acquisition of \$10.2 million, recorded on March 30, 2010, representing the fair value of the consideration issued by the Company of \$10.0 million and the net liability position of Cronus Resources Ltd. on the date of the transaction of \$0.2 million.

The Company's adjusted net loss (a non-GAAP measure, representing net income (loss) before gain on Canadian dollar-denominated warrants and loss on reverse acquisition) for the three and nine months ended September 30, 2011 amounted to \$8.9 million (\$0.08 per share) and \$12.4 million (\$0.12 per share), respectively, compared with an adjusted net loss of \$3.8 million (\$0.05 per share) and \$9.3 million (\$0.15 per share) for the same periods in 2010. The change for the quarter and nine months compared to the same periods in 2010 were primarily from the following:

- Corporate administration for the three and nine months ended September 30, 2011 was \$3.0 million and \$9.6 million, respectively (three and nine months ended September 30, 2010 - \$4.3 million and \$8.9 million, respectively), including share-based payments. The increase in costs from 2010 is primarily related to increased share-based payment costs, a one-time equity tax in Colombia net of a decrease in share issue costs expensed.
- Compensation costs related to share-based payments during the three and nine months ended September 30, 2011 was \$2.5 million and \$8.2 million, respectively (three and nine months ended September 30, 2010 - \$1.8 million and \$4.7 million, respectively), of which \$1.7 million and \$4.8 million (three and nine months ended September 30, 2010 - \$1.2 million and \$3.5 million) were expensed in the respective periods and \$0.9 million and \$3.4 million (three and nine months ended September 30, 2010 - \$0.6 million and \$1.2 million) were capitalized to exploration and evaluation assets in the respective periods.
- Changes related to share-based payments relate to the issuance of 40,000 options in the third quarter of 2011 and 2,237,500 options in the nine-month period ended September 30, 2011 with average grant date fair values of \$4.89 per share and \$5.13 per share, respectively, compared to 1,200,000 options and 4,964,725 options granted in the three and nine-month periods ended September 30, 2010 with average grant date fair values of \$3.44 per share and \$1.07 per share, respectively. The valuation of share-based payments is subjective and can impact net income (loss) significantly.
- Included in corporate administration is \$1.1 million for a new equity tax imposed by the Colombian Congress. The one-time equity tax is based on the net equity in Colombia as at January 1, 2011 and is payable over a four-year period.
- Also included in corporate administration for the three and nine months ended September 30, 2011 are professional fees of \$0.2 million and \$0.5 million, respectively (three and nine months ended September 30, 2010 - \$2.1 million and \$3.2 million). The decrease is a result of expensed share issue costs attributable to the Canadian dollar-denominated warrants in 2010.
- Write-down of exploration and evaluation assets for the three and nine months ended September 30, 2011 were \$nil (three and nine months ended September 30, 2010 - \$nil and \$1.2 million, respectively). The write-down in 2010 related to the Lunareja project.
- Foreign exchange loss for the three and nine months ended September 30, 2011, respectively, was \$5.2 million and \$3.0 million, respectively, compared to a gain of \$0.1 million and a loss of \$0.3 million for the same respective periods in 2010. The change is primarily the result of the fluctuation of the Canadian/US dollar exchange rate on Canadian cash balances held, which were greater in 2011.
- Unrealized loss on marketable securities during the quarter and the nine-month period ended September 30, 2011 was \$0.04 million and \$0.2 million, respectively, compared to an unrealized gain of \$0.3 million for both the three and nine months ended September 30, 2010 and resulted from the revaluation of securities held.

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

## SUMMARY OF QUARTERLY RESULTS

The Company currently capitalizes its exploration expenditures to exploration and evaluation assets as deferred expenses.

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

(000's of U.S. Dollars, except per share amounts)	Under IFRS <sup>(1)</sup>							Under Cdn GAAP <sup>(1)</sup>
	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010	Q4-2009
Net income (loss)	<b>(4,011)</b>	<b>(2,232)</b>	28,295	(41,588)	(43,719)	(20,690)	(13,063)	(1,773)
Basic income (loss) per share	<b>(0.04)</b>	<b>(0.02)</b>	0.28	(0.46)	(0.58)	(0.29)	(0.30)	(0.04)
Diluted income (loss) per share	<b>(0.04)</b>	<b>(0.02)</b>	0.25	(0.46)	(0.58)	(0.29)	(0.30)	(0.04)
Adjusted net income (loss) <sup>(2)</sup>	<b>(8,923)</b>	<b>(3,997)</b>	481	(1,351)	(3,828)	(2,529)	(2,983)	(1,773)
Basic adjusted net income (loss) per share	<b>(0.08)</b>	<b>(0.04)</b>	0.01	(0.02)	(0.05)	(0.04)	(0.07)	(0.04)
Diluted adjusted income (loss) per share	<b>(0.08)</b>	<b>(0.04)</b>	-	(0.02)	(0.05)	(0.04)	(0.07)	(0.04)

<sup>(1)</sup> The unaudited interim financial statements for 2011 have been prepared in accordance with IFRS with comparative information for 2010 restated under IFRS. Canadian GAAP comparative information for 2009 has not been restated.

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

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

## LIQUIDITY, CAPITAL RESOURCES AND BUSINESS PROSPECTS

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

Historically, the Company's sole source of funding has been the issuance of equity-based securities for cash as follows:

- On September 16, 2010, the Company completed an equity financing consisting of the issue of 12,000,000 units at a price of C\$5.70 per unit for gross proceeds of C\$68.4 million. Each unit consists of one common share and one-half of one 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 and 720,000 broker warrants exercisable to acquire one unit (the "additional units") at a price of C\$5.70 until September 16, 2012. Each additional unit consists of one common share and one-half of one warrant (the "additional warrants"). Each full additional warrant has an exercise price of C\$7.50 and an expiry date of September 16, 2012. Pursuant to the terms of the financing, the warrants and the additional warrants were listed and began trading on the TSX on January 17, 2011.
- On January 28, 2010 and February 11, 2010, the Company completed an equity financing consisting of the issue of 19,166,667 subscription receipts at a price of C\$1.50

per subscription receipt for gross proceeds of approximately C\$28.8 million. Each subscription receipt converted into one unit, which consisted of one common share and one-half of one warrant of the Company. Each full warrant had an exercise price of C\$2.25 per share and expired on March 30, 2011.

- On November 27, 2009, the Company issued a convertible debenture in the principal amount of C\$3 million. The debenture accrued interest at a rate equal to Canadian prime rate 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 C\$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 warrant. Each warrant has an expiry date of March 30, 2012 and an exercise price of C\$1.75 per common share.

During the three months ended September 30, 2011, the Company also received aggregate proceeds of \$0.3 million from the exercise of 169,698 warrants and 66,907 stock options, compared to \$4.5 million from the exercise of 2,100,767 warrants, 234,750 broker warrants and 333,825 options for the same period last year. During the nine months ended September 30, 2011, the Company received \$20.0 million from the exercise of 7,335,182 warrants, 724,417 broker warrants and 580,806 stock options, compared to \$6.9 million from the exercise of 2,489,481 warrants, 563,500 broker warrants and 1,547,210 options for the same period last year.

The Company's financial position at September 30, 2011 included \$88.0 million in cash and cash equivalents, compared to \$101.2 million at June 30, 2011. As at November 9, 2011, cash and cash equivalents amounted to approximately \$89.5 million.

As at September 30, 2011, the exercise of the outstanding warrants, broker warrants and stock options in full would raise a total of approximately \$75.6 million. Management does not know when and how much will be collected from the exercise of such securities, as this is dependent on the determination of the holder.

The Company continues to have no debt, other than the Colombian equity tax liability, and its credit and interest rate risk is minimal. Accounts payable and accrued liabilities are short-term and non-interest bearing.

The Company's liquidity risk with financial instruments is minimal, as excess cash is invested in interest-bearing accounts with two major Canadian banks.

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, broker warrants and stock options and other financing transactions to maintain its capacity to meet working capital requirements and planned expenditures, or to fund any further development activities.

The Company's underground exploration development at the Buriticá project includes the results from small-scale gold production. Aggregate gold sales for the three and nine months ended September 30, 2011 of \$2.2 million or 1,251 ounces and \$3.9 million or 2,418 ounces, respectively (September 30, 2010 – \$1.2 million or 1,024 ounces and \$5.1 million or 4,469 ounces, respectively) resulted from exploration work and drifting in ore. Gold sales are viewed as a recovery of expenses and used as another source of funding the Company's exploration program. As a result, gold sales, net of costs, are treated as a

capital credit and netted against deferred expenses that have been incurred to date on the Buriticá project.

For the three and nine months ended September 30, 2011, the Company capitalized exploration and evaluation costs in the amount of \$6.9 million and \$21.4 million, respectively, compared to \$4.3 million and \$7.8 million for the same periods last year. See "Exploration Summary".

On May 5, 2011, the Company completed a land acquisition transaction for mineral concession contracts and rights to mineral applications adjacent to the Buriticá and Dominical projects from the Chairman of the Company for total consideration of \$6.4 million, including \$2.0 million cash and 495,106 common shares of the Company.

Historically, the Company's only source of funding has been the issuance of equity securities for cash, through the issuance of common share capital, pursuant to private placement financings, and the exercise of warrants, broker warrants and options. The Company will continue to be reliant on equity financings as it is still in the advanced exploration and development stage without any significant revenue from operations. There can be no assurance of continued access to significant equity funding. The Company's ability to raise additional funds may be impacted by future exploration results and changes in metal prices or market conditions. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

The Company currently has adequate funds to pursue its operating obligations for 2011 and its near-term development program objectives.

## **CONTRACTUAL OBLIGATIONS**

No material contractual obligations were incurred for the three and nine month periods ended September 30, 2011.

## **MANAGEMENT OF CAPITAL**

The Company defines capital that it manages as its shareholders' equity. When managing capital, the Company's objective is to ensure sufficient financial flexibility to achieve its ongoing business objectives, optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors of the Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. As at September 30, 2011, total equity (managed capital) was approximately \$156.4 million (December 31, 2010 – \$52.5 million; June 30, 2011 - \$156.5 million).

The properties in which the Company currently has an interest are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out its planned 2011 exploration program and pay for administrative costs, the Company has sufficient working capital. At September 30, 2011, the Company had working capital of \$86.6 million compared to \$95.5 million as at December 31, 2010 and \$99.4 million as at June 30, 2011. The working capital calculation excludes Canadian dollar-denominated warrants.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2011.

The Company is not subject to any externally imposed capital requirements. The Company's current capital resources were sufficient to discharge its liabilities as at September 30, 2011.

## SHARE CAPITAL

### Fully Diluted Shares

(000's)	<b>September 30 2011</b>	December 31 2010
Common shares issued and outstanding	<b>107,684</b>	98,549
Stock options outstanding	<b>7,245</b>	5,667
Warrants outstanding (US\$ denominated)	<b>2,298</b>	2,409
Warrants outstanding (C\$ denominated)	<b>6,144</b>	13,006
Broker warrants outstanding	<b>216</b>	940
	<b>123,587</b>	120,571

The Company had 107,684,401 common shares issued and outstanding as at September 30, 2011 and 107,991,501 common shares issued and outstanding as at November 9, 2011.

### Warrants

As at September 30, 2011, there were 6,144,000 Canadian dollar-denominated warrants (December 31, 2010 - 13,005,747) and 2,298,112 warrants (December 31, 2010 - 2,409,334) outstanding, each exercisable to acquire one common share of the Company. The Company also has 216,000 broker warrants outstanding as at September 30, 2011 (December 31, 2010 - 940,417), each broker warrant allowing the holder to subscribe for a unit of the Company consisting of one common share and one-half of one warrant.

As at September 30, 2011, the Canadian dollar-denominated warrants outstanding would raise approximately \$43.9 million if exercised in full, the warrants outstanding would raise approximately \$2.3 million if exercised in full, and the broker warrants outstanding would raise approximately \$1.9 million if exercised in full, including the exercise of the one-half of one warrant included in each unit.

As at November 9, 2011, the Company has 6,144,000 Canadian dollar-denominated warrants, 2,298,112 warrants and 216,000 broker warrants outstanding.

### Stock Options

The Company has a stock option plan (the "Plan") in place under which directors, officers, employees and consultants may be granted options to subscribe for common shares. The

maximum number of common shares issuable under the Plan is equal to 10% of the outstanding common shares of the Company at any point in time.

There were 7,245,141 outstanding stock options to purchase common shares of the Company as at September 30, 2011 (December 31, 2010 – 5,667,196), of which 5,376,391 were exercisable (December 31, 2010 – 3,172,334) and 3,750,586 additional stock options are in reserve under the Plan. The stock options outstanding as at September 30, 2011 would raise approximately C\$27.5 million if exercised in full.

As at November 9, 2011, there were 6,886,791 stock options outstanding.

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

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

### **RELATED PARTY TRANSACTIONS**

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

- Gold sales to a refinery company controlled by a director of the Company for the three and nine-month periods ended September 30, 2011 amounted to \$2.2 million and \$3.9 million, respectively, compared to \$1.2 million and \$5.1 million for the same respective periods last year, and are reported as a reduction to exploration and evaluation assets on the statement of financial position.
- On May 5, 2011, the Company acquired from the Chairman of the Company, (i) title to mineral concession contracts and rights to mineral applications adjacent to the Buriticá project and (ii) title to concession contracts adjacent to the Dominical project for total purchase consideration of \$6.4 million, including \$2.0 million cash and 495,106 common shares of the Company.
- During October 2011, the Company acquired, for a nominal amount, additional licenses for properties adjacent to the Buriticá project from a company controlled by a director of the Company and reimbursed the company \$0.1 million for prepaid license fees.
- On October 27, 2011, the Company transferred its Arenosa and Zaragosa properties to OTU, a Colombian company controlled by a director of the Company, in exchange for a 25 percent equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU. Prior to the transfer, OTU held mineral properties in the vicinity of the Company's Arenosa and Zaragosa properties. The Company, along with a company controlled by a director, intends to market the properties with the intent of divesting a portion of or all of its equity interest in OTU. As a result, as at September 30, 2011, the Company has classified its interest in the Arenosa and Zaragosa properties as assets held for sale.

## **FINANCIAL INSTRUMENTS AND RELATED RISKS**

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

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

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

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

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company'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 had cash and cash equivalents of \$88.0 million as at September 30, 2011 (December 31, 2010 – \$97.2 million) to settle current liabilities of \$3.3 million (December 31, 2010 – \$3.8 million), excluding the current portion of Canadian dollar-denominated warrants. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. The Company has treasury policies designed to support managing liquidity risk by proactively mitigating exposure through cash management, including forecasting its liquidity requirements with available funds and anticipated cash flows.

All of the Company's financial liabilities (excluding Canadian dollar-denominated warrants) are subject to normal trade terms.

### **Market Risk**

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

### **Currency Risk**

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The

Company's functional currency is the U.S. dollar and major purchases are transacted 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 Medellín. The Company is subject to gains and losses due to fluctuations in the Colombian peso and the Canadian dollar against the Company's U.S. dollar functional currency. Sensitivity to a plus or minus 10% change in all foreign currencies (Colombian pesos and Canadian dollars) against the U.S. dollar, with all other variables held constant as at September 30, 2011, would affect net income (loss) and comprehensive income (loss) by approximately \$6.4 million.

### **Interest Rate Risk**

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

### **Credit Risk**

Credit risk is the risk of loss associated with 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.

Management believes that the credit risk concentration with respect to amounts receivable is minimal.

### **Fair Value**

As at September 30, 2011, the carrying and fair value amounts of the Company's financial instruments were approximately equivalent.

## **MARKET TRENDS**

### **Global Financial Market Conditions**

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

### **Gold Market**

The Company's economic assessment of its gold projects is impacted by the market-driven gold price. The gold market is affected by political stability, general economic conditions, mine production and substantial above-ground reserves that can affect the price should a portion of these reserves be brought to market.

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

The global financial market crisis affected the volatility of gold and other commodity prices, oil prices, currencies and the availability of credit. The gold price has displayed considerable volatility in the last few years. Worldwide factors will continue to influence the demand for gold.

<b>As at September 30</b> (US\$/ounce of gold)		
	<b>2011</b>	2010
Average YTD market gold price	<b>1,534</b>	1,178
Closing market gold price	<b>1,620</b>	1,307

As the following graph depicts, the Company's common share price, like most gold stocks, has underperformed against the gold price in the first nine months of 2011.



## Currency

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

	<b>Closing Rate September 30 2011</b>	Closing Rate September 30 2010	<b>YTD Average Rate 2011</b>	YTD Average Rate 2010
Canadian dollar/U.S. dollar	<b>0.9540</b>	0.9718	<b>1.0015</b>	0.9653
Colombian peso /U.S. dollar	<b>0.0005</b>	0.0006	<b>0.0006</b>	0.0005

During 2011, the Company expects to have a significant U.S. dollar and Colombian peso requirement due to exploration activities, including expenditures to advance the Buriticá project. As at September 30, 2011, the Company held \$25.6 million in U.S. dollars, representing greater than 100% of remaining 2011 planned expenditures; and as at November 9, 2011, the Company held approximately \$23.2 million in U.S. dollars, representing approximately 26% of total cash balances to protect against currency volatility in 2011.

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

The Company uses the Black-Scholes option pricing 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, rehabilitation provision and future income taxes. Changes in the accounting estimates in these items may have a material impact on the financial position of the Company.

## **CHANGES IN CANADIAN ACCOUNTING POLICIES**

### *International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that IFRS, as issued by the International Accounting Standards Board ("IASB"), will replace Canadian GAAP for publicly accountable enterprises and must be adopted for fiscal years beginning on or after January 1, 2011. The Company has adopted IFRS for its 2011 fiscal year with comparative information for 2010 restated under IFRS, as required by the AcSB. Note 13 of the unaudited interim financial statements for the three and nine months ended September 30, 2011 contains a detailed description of the conversion to IFRS, including a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS.

## **FUTURE ACCOUNTING CHANGES**

### *IFRS 9 – Financial Instruments and IFRS 13 – Fair Value Measurement*

The IASB has issued IFRS 9, Financial Instruments, which is a four-part project proposing to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is planned to be effective for years commencing on or after January 1, 2013. The Company is in the process of evaluating the impact of the change on its financial statements.

The IASB has issued IFRS 13, Fair Value Measurement which sets out a framework for measuring fair value and new required disclosures about fair value measurements in a single IFRS. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the change in its financial statements.

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

There were no significant changes in the Company's internal controls, or in other factors, that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation as of September 30, 2011, nor were there any significant deficiencies or material weaknesses in the Company's internal controls identified requiring corrective actions. Changes to accounting policies or business processes as a result of the IFRS conversion did not materially affect the Company's internal controls over financial reporting.

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

## **QUALIFIED PERSON**

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

## **RISKS AND UNCERTAINTIES**

The Company's common shares should be considered highly speculative due to the nature of its business and the present stage of its development and the location of its properties in Colombia. The Company is subject to various business, financial and operational risks that could materially adversely affect the Company's future business, operations and financial condition and could cause such future business, operations and financial condition to differ materially from the forward-looking statements and information contained in this MD&A and as described in the Caution Regarding Forward-Looking Statements found on page 1 herein.

For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's MD&A and revised annual information form ("AIF") for the year ended December 31, 2010 filed with Canadian securities regulatory authorities under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). In addition, the AIF is available upon request from the Company.

### **ADDITIONAL INFORMATION**

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

