CONTINENTAL GOLD

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2012 (UNAUDITED)

# INDEX

## Continental Gold Limited

### Consolidated Statements of Financial Position (unaudited)

| As at<br>(in 000's of U.S. Dollars) | Notes | March 31,<br>2012 | December 31,<br>2011 |
|---|---|---|---|
| | | **$** | **$** |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **76,878** | 83,404 |
| Marketable securities | | **501** | 486 |
| Receivables and prepaid expenses | | **982** | 1,154 |
| | | **78,361** | 85,044 |
| **Non-current assets** | | | |
| Restricted cash | | **65** | 89 |
| Long-term receivables | 11(c) | **521** | – |
| Prepaids and advances | | **281** | 309 |
| Intangible assets | | **279** | 288 |
| Property, plant and equipment | 4 | **6,266** | 5,811 |
| Exploration and evaluation assets | 5 | **91,551** | 83,521 |
| Investment in associates | 6 | **3,516** | 2,526 |
| | | **102,479** | 92,544 |
| | | **180,840** | 177,588 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **3,057** | 2,947 |
| Income taxes payable | | **70** | – |
| Current portion of Canadian dollar-denominated warrants | 7 | **7,268** | 6,646 |
| | | **10,395** | 9,593 |
| **Non-current liabilities** | | | |
| Equity tax liability | | **575** | 531 |
| Rehabilitation provision | | **536** | 509 |
| Deferred tax liability | | **10,346** | 11,151 |
| | | **11,457** | 12,191 |
| | | **21,852** | 21,784 |
| **Shareholders' equity** | | | |
| Share capital | 8 | **24** | 24 |
| Share premium reserve | | **250,445** | 247,281 |
| Warrants and broker warrants reserve | 9 | **790** | 1,706 |
| Share-based payment reserve | | **17,026** | 14,924 |
| Deficit | | **(109,297)** | (108,131) |
| | | **158,988** | 155,804 |
| | | **180,840** | 177,588 |
| Nature of Operations and Going concern | 1 | | |

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

## Continental Gold Limited

**Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)**

| For the three months ended (in 000's of U.S. Dollars, except share and per share amounts) | Notes | **March 31, 2012** | **March 31, 2011** |
|---|---|---|---|
| | | **$** | **$** |
| **Operating expenses:** | | | |
| Corporate administration | 11(b), 12 | **(2,737)** | (2,088) |
| Gain on sale of assets | | **21** | – |
| | | **(2,716)** | (2,088) |
| **Other income (expense):** | | | |
| Foreign exchange gain | | **1,225** | 1,561 |
| Unrealized gain on marketable securities | | **15** | 515 |
| (Loss) gain on Canadian dollar-denominated warrants | 7 | **(622)** | 27,814 |
| Other income | | **15** | 72 |
| **Net (loss) income before finance items and income tax** | | **(2,083)** | 27,874 |
| **Finance income (expense):** | | | |
| Interest income | | **223** | 153 |
| Interest and accretion expense | | **(4)** | (7) |
| **Net (loss) income before income tax** | | **(1,864)** | 28,020 |
| **Income tax (expense) recovery:** | | | |
| Current | | **(107)** | – |
| Deferred | | **805** | 275 |
| | | **698** | 275 |
| **Net (loss) income and comprehensive (loss) income for the period attributable to the equity holders of Continental Gold Limited** | | **(1,166)** | 28,295 |
| **Net (loss) income per common share** | | | |
| Basic | | **(0.01)** | 0.28 |
| Diluted | | **(0.01)** | 0.25 |
| **Weighted average number of common shares outstanding** | | | |
| Basic | | **108,438,981** | 101,149,693 |
| Diluted | | **113,813,182** | 112,634,404 |

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

Continental Gold Limited

## Consolidated Statements of Changes in Shareholders' Equity (unaudited)

| (in 000's of U.S. Dollars) | Issued Capital: Share Capital (Note 8) | Issued Capital: Share Premium Reserve | Reserves: Warrants and Broker Warrants Reserve | Reserves: Share-Based Payment Reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance, December 31, 2011** | **24** | **247,281** | **1,706** | **14,924** | **(108,131)** | **155,804** |
| Exercise of warrants – cash proceeds | **–** | **1,855** | **–** | **–** | **–** | **1,855** |
| Fair value of warrants exercised | **–** | **916** | **(916)** | **–** | **–** | **–** |
| Share-based payments | **–** | **–** | **–** | **2,364** | **–** | **2,364** |
| Exercise of share-based payments – cash proceeds | **–** | **131** | **–** | **–** | **–** | **131** |
| Fair value of share-based payments exercised | **–** | **262** | **–** | **(262)** | **–** | **–** |
| Net loss for the period | **–** | **–** | **–** | **–** | **(1,166)** | **(1,166)** |
| **Balance, March 31, 2012** | **24** | **250,445** | **790** | **17,026** | **(109,297)** | **158,988** |
| **Balance, December 31, 2010** | 17 | 168,688 | 3,719 | 6,395 | (126,335) | 52,484 |
| Fair value of warrants issued | – | (1,391) | – | – | – | (1,391) |
| Exercise of warrants – cash proceeds | 7 | 15,678 | – | – | – | 15,685 |
| Fair value of warrants exercised | – | 49,343 | (23) | – | – | 49,320 |
| Exercise of broker warrants – cash proceeds | – | 2,835 | – | – | – | 2,835 |
| Fair value of broker warrants exercised | – | 1,705 | (1,705) | – | – | – |
| Share-based payments | – | – | – | 2,416 | – | 2,416 |
| Exercise of share-based payments – cash proceeds | – | 645 | – | – | – | 645 |
| Fair value of share-based payments exercised | – | 774 | – | (774) | – | – |
| Cost of issue | – | 48 | – | – | – | 48 |
| Net income for the period | – | – | – | – | 28,295 | 28,295 |
| **Balance, March 31, 2011** | 24 | 238,325 | 1,991 | 8,037 | (98,040) | 150,337 |

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

## Continental Gold Limited

### Consolidated Statements of Cash Flows (unaudited)

| For the three months ended (in 000's of U.S. Dollars) | Note | March 31, 2012 | March 31, 2011 |
|---|---|---|---|
| | | **$** | **$** |
| **Cash provided by (used in):** | | | |
| **Operating activities:** | | | |
| Net (loss) income for the year | | **(1,166)** | 28,295 |
| Items not affecting cash: | | | |
| Share-based payments | 10(b) | **1,198** | 866 |
| Loss (gain) on Canadian dollar-denominated warrants | 7 | **622** | (27,814) |
| Deferred tax recovery | | **(805)** | (275) |
| Unrealized gain on marketable securities | | **(15)** | (515) |
| Unrealized foreign exchange gain | | **(1,225)** | (1,691) |
| Other non-cash items | 13(a) | **49** | 71 |
| Changes in non-cash operating working capital balances | 13(a) | **(1,237)** | (808) |
| | | **(2,579)** | (1,871) |
| **Investing activities:** | | | |
| Receivables other than accounts receivable | | **(240)** | – |
| Investment in associates | 6 | **(990)** | – |
| Property, plant and equipment | 4 | **(633)** | (551) |
| Exploration and evaluation assets | 5 | **(7,495)** | (6,338) |
| Recoveries in property from gold sales | 5 | **792** | 626 |
| Other investing activities | 13(b) | **1,299** | (146) |
| | | **(7,267)** | (6,409) |
| **Financing activities:** | | | |
| Cash proceeds from exercise of stock options, warrants, and broker warrants | | **1,986** | 19,205 |
| | | **1,986** | 19,205 |
| Net change in cash and cash equivalents during the period | | **(7,860)** | 10,925 |
| Cash and cash equivalents, beginning of period | | **83,404** | 97,208 |
| Foreign exchange effect on cash balances | | **1,334** | 1,716 |
| **Cash and cash equivalents, end of period** | | **76,878** | 109,849 |

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

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

### Nature of Operations

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

The Company engages principally in the acquisition, exploration and development of its mineral properties in Colombia. The Company's activities include a small-scale mining operation related to exploration work and considered by the Company to be in the pre-production stage. Substantially all of the Company's efforts are devoted to exploring, financing and developing these properties.

The Company's shares are listed on the Toronto Stock Exchange ("TSX") and also trades in the United States on the U.S. Over-the-Counter ("OTC"), OTCQX®. The registered address and corporate records of the Company are located at Cumberland House, 9th floor, 1 Victoria Street, Hamilton HM 11, Bermuda.

### Going Concern

These unaudited interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. For the three months ended March 31, 2012, the Company recorded a net loss of $1,166,000 (three months ended March 31, 2011 – net income of $28,295,000), after recognizing a valuation loss in respect of the Canadian dollar-denominated warrants of $622,000 (three months ended March 31, 2011 – valuation gain of $27,814,000), and reported an accumulated deficit of $109,297,000 (December 31, 2011 - $108,131,000; March 31, 2011 - $98,040,000).

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

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

## 2. BASIS OF PREPARATION

**Statement of Compliance**

These unaudited interim consolidated financial statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of unaudited interim consolidated financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"). These unaudited interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS. The accounting policies followed in these unaudited interim consolidated financial statements are those applied in the Company's annual financial statements for the year ended December 31, 2011, Notes 2, 3 and 4. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

## 3. OPERATING SEGMENTS

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

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

*Geographical information*

The Company operates in three principal geographical areas – Bermuda, Canada and Colombia. Geographical segmentation of the Company's assets, liabilities, net income (loss) and capital expenditures are as follows:

| **March 31, 2012** (in 000's of U.S. dollars) | **Canada** | **Bermuda** | **Colombia** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Cash and cash equivalents | **69,945** | **6,302** | **631** | **76,878** |
| Exploration and evaluation assets | **–** | **–** | **91,551** | **91,551** |
| Total assets | **72,156** | **6,302** | **102,382** | **180,840** |
| Total liabilities | **7,649** | **285** | **13,918** | **21,852** |
| Net income (loss) | **(1,727)** | **(91)** | **652** | **(1,166)** |
| Capital expenditures | **–** | **–** | **7,368** | **7,368** |

| December 31, 2011 (in 000's of U.S. dollars) | Canada | Bermuda | Colombia | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cash and cash equivalents | 75,745 | 6,575 | 1,084 | 83,404 |
| Exploration and evaluation assets | – | – | 83,521 | 83,521 |
| Total assets | 77,917 | 6,575 | 93,096 | 177,588 |
| Total liabilities | 7,583 | 573 | 13,628 | 21,784 |
| Net loss | 22,707 | (337) | (4,166) | 18,204 |
| Capital expenditures | 2,005 | – | 25,645 | 27,650 |

## 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

| **Net book value** (in 000's U.S. Dollars) | **As at March 31, 2012** | As at December 31, 2011 |
|---|---|---|
| | **$** | $ |
| Office equipment | **677** | 658 |
| Computer equipment | **402** | 415 |
| Vehicles | **443** | 333 |
| Exploration equipment | **27** | 28 |
| Mining and plant equipment | **1,428** | 1,453 |
| Mine development costs | **939** | 736 |
| Buildings | **437** | 438 |
| Leasehold improvements | **510** | 542 |
| Land | **1,403** | 1,208 |
| **Total** | **6,266** | 5,811 |

| **Cost** (in 000's U.S. Dollars) | As at December 31, 2010 | Additions | Disposals or write-downs | **As at December 31, 2011** | **Additions** | **Disposals or write-downs** | **As at March 31, 2012** |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | **$** | **$** | **$** | **$** |
| Office equipment | 296 | 626 | (42) | **880** | **43** | **(4)** | **919** |
| Computer equipment | 243 | 346 | (6) | **583** | **24** | **(1)** | **606** |
| Vehicles | 362 | 172 | (75) | **459** | **141** | **(33)** | **567** |
| Exploration equipment | 30 | 9 | – | **39** | **–** | **–** | **39** |
| Mining and plant equipment | 1,705 | 370 | (284) | **1,791** | **22** | **–** | **1,813** |
| Mine development costs | 537 | 199 | – | **736** | **203** | **–** | **939** |
| Buildings | 193 | 257 | – | **450** | **5** | **–** | **455** |
| Leaseholds improvements | 216 | 495 | (70) | **641** | **–** | **–** | **641** |
| Land | 230 | 978 | – | **1,208** | **195** | **–** | **1,403** |
| Total | 3,812 | 3,452 | (477) | **6,787** | **633** | **(38)** | **7,382** |

| **Accumulated Depreciation** (in 000's U.S. Dollars) | As at December 31, 2010 | Depreciation | Disposals or write-downs | **As at December 31, 2011** | **Depreciation** | **Disposals or write-downs** | **As at March 31, 2012** |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | **$** | **$** | **$** | **$** |
| Office equipment | 81 | 141 | – | **222** | **23** | **(3)** | **242** |
| Computer equipment | 77 | 95 | (4) | **168** | **36** | **–** | **204** |
| Vehicles | 86 | 77 | (37) | **126** | **25** | **(27)** | **124** |
| Exploration equipment | 8 | 3 | – | **11** | **1** | **–** | **12** |
| Mining and plant equipment | 104 | 239 | (5) | **338** | **47** | **–** | **385** |
| Buildings | – | 12 | – | **12** | **6** | **–** | **18** |
| Leaseholds improvements | – | 99 | – | **99** | **32** | **–** | **131** |
| Total | 356 | 666 | (46) | **976** | **170** | **(30)** | **1,116** |

Depreciation for the three months ended March 31, 2012 of $61,000 (three months ended March 31, 2011 - $41,000; year ended December 31, 2011 - $376,000) is included in depreciation and amortization in the consolidated statement of operations and comprehensive income (loss). Depreciation for the three months ended March 31, 2012 of $109,000 (for the three months ended March 31, 2011 - $6,000; year ended December 31, 2011 - $290,000) is capitalized in exploration and evaluation assets.

## 5. EXPLORATION AND EVALUATION ASSETS

| (in 000's of U.S. dollars) | **As at December 31, 2011** | **Additions** | **Proceeds from Options and Recoveries** | **Disposals or Write-downs** | **As at March 31, 2012** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Anza (a) | **5** | **–** | **–** | **–** | **5** |
| Berlin | **14,114** | **177** | **–** | **–** | **14,291** |
| Buriticá(b) | **62,598** | **8,724** | **(792)** | **–** | **70,530** |
| Dojura (c) | **1,265** | **1** | **(186)** | **–** | **1,080** |
| Dominical | **4,949** | **106** | **–** | **–** | **5,055** |
| Santander | **590** | **–** | **–** | **–** | **590** |
| Total | **83,521** | **9,008** | **(978)** | **–** | **91,551** |

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

### (a) Anza Property

The Company and five other parties (the "Anza Optionors") entered into an option agreement dated May 20, 2010 to option a contiguous group of properties (the "Anza Properties") in which the Company's Anza property is included. The Company is entitled to receive 25% of all consideration flowing to the Anza Optionors pursuant to the option agreement and a letter of intent.

The excess of any option payments received exceeding the net book value of the property on the date of receipt are recognized in other income on the consolidated statement of operations and comprehensive income (loss). Any subsequent expenditures continue to be capitalized according to the Company's accounting policy for exploration and evaluation assets.

### (b) Buriticá Property

Gold sales from pre-production and bulk sampling revenues for the three months ended March 31, 2012 of $792,000 (three months ended March 31, 2011 - $626,000) were credited against the capitalized expenditures.

(c) **Dojura Property**

The Dojura property is subject to an option agreement, dated October 4, 2006, with an unrelated third party.

The Company received payments for the three months ended March 31, 2012 of $250,000 (three months ended March 31, 2011 - $150,000) and paid the required 25% portion of $63,000 (three months ended March 31, 2011 - $32,000) to a company controlled by the Chairman, pursuant to the option agreement. However, work has halted on the Dojura project on a partial force majeure basis until such time as security conditions in the area improve. The Company has initiated discussions with the option holder to determine the suitability for work thereon to resume. Until that time, the option holder has paid and is expected to continue to pay any payments required to keep the Dojura project in good standing.

(d) **Arenosa and Zaragoza Properties**

On October 27, 2011, the Company completed a transaction whereby the remaining licences for the Arenosa and Zaragoza properties were transferred to Minerales OTU S.A.S. ("OTU"), a private Colombian company controlled by the Chairman of the Company, in exchange for a 25% equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU).

(e) **Properties**

The Company has an option to acquire certain Mineral Rights from a company controlled by the Chairman of the Company pursuant to an option agreement between the Company and the related party dated January 16, 2008 and expiring September 7, 2012 (Note 11(c)).

## 6. INVESTMENT IN ASSOCIATES

Investment in associates consists of the following:

| (in 000's of U.S. Dollars) | **Sabre Minerals Inc. (a)** | **Nighthawk Resources Inc. (b)** | **Minerales OTU S.A.S. (c)** | **2012** | 2011 |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | $ |
| **As at January 1** | **–** | **–** | **2,526** | **2,526** | – |
| Initial investment in associate | **70** | **70** | **–** | **140** | – |
| Additional investments | **502** | **348** | **–** | **850** | – |
| Share of net loss | **–** | **–** | **–** | **–** | – |
| **Closing Balance at March 31** | **572** | **418** | **2,526** | **3,516** | – |

(a) During the three months ended March 31, 2012, the Company invested C$70,000 and received common shares in Sabre Minerals Inc. ("Sabre"), a private company incorporated in the province of Ontario, Canada. In addition, the Company paid an additional C$502,000 to Sabre and received a convertible promissory note which provides the Company the option to convert the receivable, at its option, into shares of Sabre.

As at March 31, 2012, the Company owned 6% of Sabre with a company controlled by the Chairman of the Company having a controlling interest. The Company has accounted for its investment in Sabre as an investment in associate as the Company continues to have significant influence over the activities of Sabre.

Subsequent to March 31, 2012, the Company subscribed for additional shares through the conversion of C$250,000 of the convertible promissory note and also received additional shares in consideration for the waiver of the Company's option on the properties transferred by a company controlled by the Chairman of the Company to Sabre. The Company's ownership of Sabre after these transactions is approximately 16%.

(b) During the three months ended March 31, 2012, the Company paid C$414,000 to Nighthawk Resources Inc. ("Nighthawk"), a private company incorporated in the province of Ontario, Canada, and received a convertible promissory note which provides the Company the option to convert the receivable, at its option, into shares of Nighthawk. The Company immediately subscribed for shares of Nighthawk through the conversion C$70,000 of the convertible promissory note.

As at March 31, 2012, the Company owns approximately 7% of Nighthawk with a company controlled by the Chairman of the Company having a controlling interest. The Company has accounted for its investment in Nighthawk as an investment in associate as the Company continues to have significant influence over the activities of Nighthawk.

Subsequent to March 31, 2012, the Company received additional shares in consideration for the waiver of the Company's option on the properties transferred by a company controlled by the Chairman of the Company to Nighthawk. The Company's ownership of Nighthawk after this transaction is approximately 19%.

(c) The Company owns 25% of OTU, and the remaining 75% is owned by a company controlled by the Chairman of the Company. The shareholders of OTU are responsible for proportionately funding its activities based on the shareholder's interest.

A company controlled by the Chairman of the Company will manage the activities of OTU.

The Company and the company controlled by the Chairman of the Company have engaged in the marketing of OTU with the objective to divest all or a portion of their equity interest in OTU to unrelated third parties.

## 7. CANADIAN DOLLAR-DENOMINATED WARRANTS

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

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Fair Value** | Number of Warrants | Black-Scholes Value |
| | | **$(000's)** | | $(000's) |
| Balance, January 1 | **6,144,000** | **6,646** | 13,005,747 | 90,074 |
| Issued (a) | **–** | **–** | 110,209 | 770 |
| Issued (b) | **–** | **–** | 252,000 | 686 |
| Exercised | **–** | **–** | (7,223,949) | (50,885) |
| Expired | **–** | **–** | (7) | – |
| Fair value revaluation of liability | **–** | **622** | – | (33,999) |
| **Balance, end of period** | **6,144,000** | **7,268** | 6,144,000 | 6,646 |
| **Current portion** | **6,144,000** | **7,268** | 6,144,000 | 6,646 |
| **Non-current portion** | **–** | **–** | – | – |

The outstanding Canadian dollar-denominated warrants have an expiry date of September 16, 2012 and an exercise price of C$7.50 per common share. However, in the event that the closing share price of the Company's common shares on the TSX is greater than C$9.75 per share for a period of 20 consecutive trading days at any time after September 16, 2010, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and, in such case, the warrants will expire on the 30th day after the date on which such notice is given by the Company. As of March 31, 2012, no such notice has been given by the Company.

(a) For the three months ended March 31, 2012, nil warrants (three months ended March 31, 2011 – 110,209 warrants) were issued as a result of the exercise of nil broker warrants (three months ended March 31, 2011 – 220,417 broker warrants). Each full warrant had an exercise price of C$2.25 and an expiry date of March 31, 2011. All such warrants were exercised as of the March 31, 2011 expiry date.

The issue date fair value of the warrants issued during the three months ended March 31, 2012 was $nil (three months ended March 31, 2011 - $770,000).

A derivative gain of $nil was recognized in the consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2012 (three months ended March 31, 2011 - $4,976,000) relating to the revaluation of the warrants upon exercise. Fair values were determined using the Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy.

(b) For the three months ended March 31, 2012, nil warrants (three months ended March 31, 2011 – 216,000 warrants) were issued as a result of the exercise of nil broker warrants (three months ended March 31, 2011 – 432,000 broker warrants) with the same terms and conditions as the outstanding Canadian dollar-denominated pool of warrants and are included with the pool of warrants for revaluation purposes.

The issue date fair value of the warrants issued during the three months ended March 31, 2012 was estimated at $nil (three months ended March 31, 2011 – $621,000).

The fair value of the outstanding warrants on March 31, 2012 was $7,268,000 (December 31, 2011 - $6,646,000; March 31, 2011 - $12,521,000), resulting in a derivative gain recognized in the consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2012 of $622,000 (three months ended March 31, 2011 – $22,012,000). Fair value estimates are based on quoted market prices for the warrants and are therefore classified as level 1 within the fair value hierarchy.

(c) For the three months ending March 31, 2012, all fair values were determined based on quoted market prices.

For warrants issued where fair values were determined using the Black-Scholes option pricing model, the following is the range of assumptions used to value the above-noted warrants for the three months ended March 31, 2011:

| | Three months ended March 31, 2011 |
|---|---|
| Expected dividend yield | nil |
| Expected volatility | 100% |
| Risk-free interest rate | 1.53% to 1.9% |
| Period to expiry on date of exercise or revaluation | 0.01 to 1.47 years |

## 8. SHARE CAPITAL

### (a) Authorized

At March 31, 2012, the authorized share capital consisted of 50,000,000,000 common shares with a par value of $0.000001 and 100,000,000 preferred shares with a par value of $0.0001, issuable in series. No dividends have been paid or declared by the Company since inception.

### (b) Issued

As of March 31, 2012, the issued share capital was 110,115,516 common shares. All issued shares are fully paid. No preferred shares are issued. The change in issued share capital for the three months ended March 31, 2012 and 2011 were as follows:

| | Number of Shares | |
|---|---|---|
| | **2012** | 2011 |
| **Balance, January 1** | **108,145,007** | 98,548,890 |
| Exercise of stock options (Note 10) | **80,211** | 496,899 |
| Exercise of warrants (Note 7, Note 9(a)) | **1,890,298** | 7,056,843 |
| Exercise of broker warrants (Note 9(b)) | **–** | 652,417 |
| **Balance, March 31** | **110,115,516** | 106,755,049 |

## 9. WARRANTS AND BROKER WARRANTS RESERVE

### (a) Warrants

| | March 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Black-Scholes Value** | Number of Warrants | Black-Scholes Value |
| | | **$(000's)** | | $(000's) |
| Balance, January 1 | **2,298,112** | **916** | 2,409,334 | 961 |
| Exercised | **(1,890,298)** | **(753)** | (111,222) | (45) |
| Expired | **(407,814)** | **(163)** | – | – |
| **Balance, end of period** | **–** | **–** | 2,298,112 | 916 |

The above share purchase warrants had an expiry date of March 30, 2012 and an exercise price of $0.98 per share. No such warrants were outstanding as at March 31, 2012.

(b) **Broker warrants**

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Black-Scholes Value** | Number of Warrants | Black-Scholes Value |
| | | **$(000's)** | | $(000's) |
| Balance, January 1 | **216,000** | **790** | 940,417 | 2,758 |
| Exercised | **–** | **–** | (724,417) | (1,968) |
| **Balance, end of period** | **216,000** | **790** | 216,000 | 790 |

The broker warrants outstanding have an exercise price of C$5.70 and an expiry date of September 16, 2012. Each unit consists of one common share and one-half of one share purchase warrant. Each share purchase warrant has an exercise price of C$7.50 ($7.31) and an expiry date of September 16, 2012.

The issue date fair value of broker warrants was estimated using the Black-Scholes option pricing model. Warrants issued upon exercise of broker warrants are fair-valued based on quoted market prices for the warrants and classified as Canadian dollar-denominated warrants (Note 7).

No broker warrants were issued in 2012 and 2011.

## 10. SHARE-BASED PAYMENTS

Under the Company's stock option plan (the "Plan"), the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding share capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The aggregate number of common shares that may be reserved for issuance to any one person or entity under the Plan and any other security compensation arrangement may not exceed 5% of the total number of shares outstanding at the date of grant (on a non-diluted basis). Options granted under the Plan will be for a term not to exceed 10 years.

Movements in stock options during the period were as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of Stock Options** | **Weighted Average Exercise Price** | Number of Stock Options | Weighted Average Exercise Price |
| | | **$** | | $ |
| Balance, January 1 | **6,868,285** | **4.13** | 5,667,196 | 1.98 |
| Granted (*)(b) | **2,381,288** | **7.84** | 637,500 | 9.81 |
| Exercised | **(80,211)** | **1.62** | (496,898) | 1.23 |
| Forfeited | **(93,750)** | **9.79** | (7,500) | 1.51 |
| **Balance, March 31** | **9,075,612** | **5.06** | 5,800,298 | 3.01 |

(*) The weighted average grant date fair value of stock option grants during the three months ended March 31, 2012 and 2011 was $7.84 and $5.84, respectively.

The following table shows the stock options outstanding at March 31, 2012:

| | Stock Options Outstanding | | | Stock Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Price $ | Number of Stock Options Outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Number of Stock options exercisable | Weighted average remaining contractual life (years) | Weighted average exercise price |
| $0.40 - $2.00 | 3,408,074 | 3.77 | $1.33 | 3,408,074 | 3.77 | $1.33 |
| $2.01 – $4.00 | 685,000 | 3.11 | $2.30 | 685,000 | 3.11 | $2.30 |
| $4.01 - $6.00 | 170,000 | 3.42 | $5.58 | 170,000 | 3.42 | $5.58 |
| $6.01 - $8.00 | 2,958,788 | 4.69 | $7.77 | 390,000 | 3.97 | $7.19 |
| $8.01 – $9.84 | 1,853,750 | 4.16 | $8.63 | 1,030,625 | 4.11 | $8.80 |
| | 9,075,612 | 4.09 | $5.07 | 5,683,699 | 3.75 | $3.33 |

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

| **For the three months ended** | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| Number of stock options granted | **2,381,288** | 637,500 |
| Weighted average exercise price (C$) | **7.80** | 9.64 |
| Weighted average market price ($) | **7.84** | 9.58 |
| Expected dividend yield | **Nil** | nil |
| Expected volatility | **58.43%** | 100% |
| Weighted average risk-free interest rate | **1.16%** | 2.06% |
| Forfeiture rate | **5.02%** | 5.00% |
| Weighted expected life (years) | **3.12** | 2.88 |
| Weighted average grant date fair value (per share) | **$3.17** | $5.84 |

The options granted in 2012 have vesting terms of 25% every six months from the date of grant. The options granted in 2011 have vesting terms of 25% immediately and 25% every six months from the date of grant. All granted options have a five-year term from the date of grant.

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

| **For the three months ended** (in 000's U.S. Dollars) | Note | **March 31, 2012** | March 31, 2011 |
|---|---|---|---|
| | | **$** | $ |
| Share-based payments, included in corporate administration expenses | 12 | **1,198** | 866 |
| Share-based payments capitalised to exploration and evaluation assets | | **1,166** | 1,550 |
| | | **2,364** | 2,416 |

## 11. RELATED PARTY TRANSACTIONS

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

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

(a) During the three months ended March 31, 2012, aggregate gold sales to a refinery company, in which a director of the Company has an equity interest and is an officer, amounted to $792,000 (three months ended March 31, 2011 - $626,000) and are reported as a reduction to exploration and evaluation assets on the consolidated statement of financial position. As at March 31, 2012, the refinery company owed the Company $nil (December 31, 2011 – $237,000) which is included in accounts receivable. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

(b) Effective November 22, 2011, the Company entered into a consulting agreement with a company controlled by the Chairman of the Company for $20,000 per month. Services include site visit security and logistics, technical assistance and assistance with Colombia mining law and processes.

(c) As at March 31, 2012, $521,000 (December 31, 2011 - $nil) was included in long-term receivable relating to exploration expenditures incurred by the Company on behalf of Nighthawk, an associate of the Company. The receivable will be repaid upon the completion of future financing transactions and the completion of an initial public offering by Nighthawk.

(d) During the three months ended March 31, 2012, $502,000 (three months ended March 31, 2011 - $nil) was paid by Sabre to a company controlled by the Chairman of the Company for the repayment of canon payments.

(e) During the three months ended March 31, 2012, $418,000 (three months ended March 31, 2011 - $nil) was paid by Nighthawk to a company controlled by the Chairman of the Company for the repayment of canon payments.

(f) During the three months ended March 31, 2012, option payments of $63,000 (three months ended March 31, 2011 - $32,000), representing 25% of option payments received from the third-party joint venture partner in the Dojura project, was paid to a company controlled by the Chairman of the Company, pursuant to the option agreement.

(g) A company controlled by the Chairman of the Company (the "Optionor") controls or is the beneficiary of mineral rights in Colombia (collectively, the "Mineral Rights"), some of which are registered in the mining registry ("Current Mineral Rights"), others for which registration is pending ("Beneficial Mineral Rights") and the remainder of which are applications for mineral rights presented before the competent authority which are currently being processed or applications that will be made up to and including September 7, 2012 ("After Acquired Mineral Rights"). The Company has an option to acquire the Mineral Rights from the Optionor pursuant to an option agreement between the Company and the Optionor dated January 16, 2008. The details of the option agreement are as follows:

(i) the option agreement expires September 7, 2012;

(ii) the purchase price for Mineral Rights acquired under the option agreement is based on the market value as negotiated by the parties, or as determined by an independent mutually acceptable expert whose opinion shall be binding, pursuant to the following formula:

(a) 25% of the market value plus all other expenses incurred by the Optionor in respect of Current Mineral Rights and Beneficial Mineral Rights; and

(b) 100% of the market value in respect of After Acquired Mineral Rights;

(iii) the purchase price for Mineral Rights acquired under the option agreement may be paid in cash or common shares of the Company as the Company may elect, subject to regulatory approval, and such common shares shall be valued on the basis of a twenty-day weighted average trading price formula;

(iv) if the Mineral Rights acquired under the option agreement are subject to a joint venture with a third party, the Optionor is entitled to 25% of the benefits derived by the Company from such joint venture for the duration of the joint venture;

(v) if the Company elects to acquire Mineral Rights under the option agreement but does not complete such acquisition, such Mineral Rights are no longer subject to the option agreement and may not be acquired by the Company in the future;

(vi) The Optionor retains the right to explore, exploit, recover and commercialize non-metallic elements that may occur in the Mineral Rights, with the result that the Company has no right to non-metallic metals and should non-metallic metals be found on any property acquired by the Company pursuant to the option agreement, or in another property owned by the Company within three kilometres from each point on the outermost boundaries of such Mineral Rights, then all such areas containing non-metallic elements shall be re-conveyed to the company controlled by a director for no further consideration; and

(vii) if within twelve months of acquisition under the option agreement the Company does not explore or develop, or chooses to relinquish its interest in such Mineral Rights, then such Mineral Rights shall be re-conveyed to the Optionor for no further consideration.

## 12. CORPORATE ADMINISTRATION EXPENSES

| **For the three months ended** (in 000's U.S. Dollars) | Note | **March 31, 2012** | March 31, 2011 |
|---|---|---|---|
| | | **$** | $ |
| Share-based payments | 10(b) | **1,198** | 866 |
| Salaries | | **675** | 380 |
| Travel expenses | | **292** | 95 |
| Professional fees | | **138** | 152 |
| Investor relations | | **109** | 95 |
| Directors fees and expenses | | **92** | 92 |
| General office and administration expense | | **85** | 282 |
| Regulatory fees | | **75** | 61 |
| Depreciation and amortization | 4 | **73** | 65 |
| | | **2,737** | 2,088 |

## 13. CASH FLOW – OTHER ITEMS

### (a) Other Operating Activities

| **For the three months ended**<br>(in 000's U.S. Dollars) | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| | **$** | $ |
| Other non-cash items: | | |
| Depreciation and amortization | **73** | 65 |
| Interest and accretion expense | **5** | 6 |
| Gain on sale of assets | **(21)** | – |
| Interest income | **(8)** | – |
| | **49** | 71 |
| Net changes in non-cash operating working capital balances: | | |
| Receivables and prepaid expenses | **(101)** | 67 |
| Accounts payable and accrued liabilities | **(1,136)** | (875) |
| | **(1,237)** | (808) |

### (b) Other Investing Activities

| **For the years ended**<br>(in 000's U.S. Dollars) | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| | **$** | $ |
| Accounts payable and accrued liabilities attributable to exploration and evaluation assets | **1,251** | 747 |
| Prepaids and advances | **28** | (1,051) |
| Proceeds from disposal of assets | **28** | – |
| Restricted cash | **24** | 184 |
| Intangible assets | **(32)** | (26) |
| | **1,299** | (146) |