CONTINENTALGOLD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
June 30, 2012 (UNAUDITED)

INDEX

Continental Gold Limited

Consolidated Statements of Financial Position (unaudited)

As at (in 000's of U.S. Dollars)	Notes	June 30, 2012	December 31, 2011
		$	**$**
Assets			
Current assets			
Cash and cash equivalents		**65,386**	83,404
Marketable securities		**328**	486
Receivables and prepaid expenses		**1,015**	1,154
		66,729	85,044
Non-current assets			
Restricted cash		**64**	89
Long-term receivables	11(c),(d)	**1,000**	–
Prepaids and advances		**232**	309
Intangible assets		**324**	288
Property, plant and equipment	4	**6,904**	5,811
Exploration and evaluation assets	5	**102,898**	83,521
Investment in associates	6	**3,389**	2,526
		114,811	92,544
		181,540	177,588
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**4,200**	2,947
Current portion of Canadian dollar-denominated warrants	7	**2,444**	6,646
		6,644	9,593
Non-current liabilities			
Equity tax liability		**432**	531
Rehabilitation provision		**540**	509
Deferred tax liability		**9,903**	11,151
		10,875	12,191
		17,519	21,784
Shareholders' equity			
Share capital	8	**24**	24
Share premium reserve		**252,288**	247,281
Warrants and broker warrants reserve	9	**263**	1,706
Share-based payment reserve		**19,709**	14,924
Deficit		**(108,263)**	(108,131)
		164,021	155,804
		181,540	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)

(in 000's of U.S. Dollars, except share and per share amounts)	Notes	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
		$		**$**	
Operating expenses:					
Corporate administration	12	**(2,878)**	(4,525)	**(5,615)**	(6,613)
(Loss) gain on sale of assets		**(6)**	(142)	**15**	(142)
		(2,884)	(4,667)	**(5,600)**	(6,755)
Other income (expense):					
Foreign exchange (loss) gain		**(1,364)**	652	**(139)**	2,213
Unrealized loss on marketable securities		**(230)**	(702)	**(215)**	(187)
Gain on Canadian dollar-denominated warrants	7	**4,824**	1,765	**4,202**	29,579
Share of net loss of in associates	6	**(127)**	–	**(127)**	–
Other income		**318**	53	**333**	125
Net income (loss) before finance items and income tax		**537**	(2,899)	**(1,546)**	24,975
Finance income (expense):					
Interest income		**171**	350	**394**	503
Interest and accretion expense		**(11)**	(47)	**(15)**	(54)
Net income (loss) before income tax		**697**	(2,596)	**(1,167)**	25,424
Income tax (expense) recovery:					
Current		**(106)**	(134)	**(213)**	(134)
Deferred		**443**	498	**1,248**	773
		337	364	**1,035**	639
Net income (loss) and comprehensive income (loss) for the period		**1,034**	(2,232)	**(132)**	26,063
Net income (loss) per common share					
Basic		**0.01**	(0.02)	**(0.00)**	0.26
Diluted		**0.01**	(0.02)	**(0.00)**	0.24
Weighted average number of common shares outstanding					
Basic		**110,144,000**	107,159,499	**109,291,489**	98,779,318
Diluted		**113,430,061**	107,159,499	**113,835,000**	108,213,614

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		Reserves			
	Share Capital (Note 8)	Share Premium Reserve	Warrants and Broker Warrants Reserve	Share-Based Payment Reserve	Deficit	Total
	$	$	$	$	$	$
Balance, December 31, 2011	**24**	**247,281**	**1,706**	**14,924**	**(108,131)**	**155,804**
Fair value of warrants issued	–	**(70)**	–	–	–	**(70)**
Exercise of warrants – cash proceeds	–	**2,378**	–	–	–	**2,378**
Fair value of warrants exercised	–	**986**	**(916)**	–	–	**70**
Share-based payments	–	–	–	**5,045**	–	**5,045**
Exercise of broker warrants – cash proceeds	–	**795**	–	–	–	**795**
Fair value of broker warrants exercised	–	**527**	**(527)**	–	–	–
Exercise of share-based payments – cash proceeds	–	**131**	–	–	–	**131**
Fair value of share-based payments exercised	–	**260**	–	**(260)**	–	–
Net loss for the period	–	–	–	–	**(132)**	**(132)**
Balance, June 30, 2012	**24**	**252,288**	**263**	**19,709**	**(108,263)**	**164,021**
Balance, December 31, 2010	17	168,688	3,719	6,395	(126,335)	52,484
Issue of shares – asset purchase	–	4,229	–	–	–	4,229
Fair value of warrants issued	–	(1,456)	–	–	–	(1,456)
Exercise of warrants – cash proceeds	7	15,753	–	–	–	15,760
Fair value of warrants exercised	–	49,786	(45)	–	–	49,741
Exercise of broker warrants – cash proceeds	–	3,259	–	–	–	3,259
Fair value of broker warrants exercised	–	1,968	(1,968)	–	–	–
Share-based payments	–	–	–	5,676	–	5,676
Exercise of share-based payments – cash proceeds	–	688	–	–	–	688
Fair value of share-based payments exercised	–	793	–	(793)	–	–
Share issue cost – cash	–	59	–	–	–	59
Net income for the period	–	–	–	–	26,063	26,063
Balance, June 30, 2011	24	243,767	1,706	11,278	(100,272)	156,503

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

Continental Gold Limited
Consolidated Statements of Cash Flows (unaudited)

(in 000's of U.S. Dollars)	Note	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
		$		**$**	
Cash provided by (used in):					
Operating activities:					
Net income (loss) for the year		**1,034**	(2,232)	**(132)**	26,063
Items not affecting cash:					
Share-based payments	10(b)	**1,495**	2,269	**2,693**	3,135
Gain on Canadian dollar-denominated warrants	7	**(4,824)**	(1,765)	**(4,202)**	(29,579)
Deferred tax expense (recovery)		**(443)**	(498)	**(1,248)**	(773)
Share of net loss of in associates	6	**127**	–	**127**	–
Unrealized loss on marketable securities		**230**	704	**215**	189
Unrealized foreign exchange loss (gain)		**1,364**	(522)	**139**	(2,213)
Other non-cash items	13(a)	**128**	119	**177**	190
Equity tax expense		**–**	1,115	**–**	1,115
Changes in non-cash operating working capital balances	13(a)	**195**	(433)	**(1,042)**	(1,069)
		(694)	(1,243)	**(3,273)**	(2,942)
Investing activities:					
Receivables other than accounts receivable		**(388)**	–	**(628)**	–
Investment in associates		**–**	–	**(990)**	–
Property, plant and equipment		**(860)**	(1,285)	**(1,493)**	(1,836)
Acquisition of exploration and evaluation assets		**–**	(2,000)	**–**	(2,000)
Exploration expenditures		**(10,906)**	(6,801)	**(18,401)**	(13,311)
Recoveries in property from gold sales		**885**	1,094	**1,677**	1,720
Other investing activities	13(b)	**640**	392	**1,939**	246
		(10,629)	(8,600)	**(17,896)**	(15,181)
Financing activities:					
Cash proceeds from exercise of stock options, warrants, and broker warrants		**1,318**	562	**3,304**	19,767
		1,318	562	**3,304**	19,767
Net change in cash and cash equivalents during the period		**(10,005)**	(9,281)	**(17,865)**	1,644
Cash and cash equivalents, beginning of period		**76,878**	109,849	**83,404**	97,208
Foreign exchange effect on cash balances		**(1,487)**	666	**(153)**	2,382
Cash and cash equivalents, end of period		**65,386**	101,234	**65,386**	101,234

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 and 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 trade in the United States on the OTCQX® International, the highest tier of the U.S. Over-the-Counter market. 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 and six months ended June 30, 2012, the Company recorded a net income of $1,034,000 and a net loss of $132,000, respectively (2011 – net loss of $2,232,000 and net income of $26,063,000, respectively), after recognizing valuation gains in respect of the Canadian dollar-denominated warrants of $4,824,000 and $4,202,000, respectively (2011 – valuation gain of $1,765,000 and $29,579,000, respectively), and reported an accumulated deficit of $108,263,000 on June 30, 2012 (December 31, 2011 - $108,131,000).

The Company has a need for equity capital and other financing to fund working capital in the exploration and development of its properties. The Company's ability to continue as a going concern, as an active mineral property 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 statements 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:

June 30, 2012 (in 000's of U.S. Dollars)	**Canada**	**Bermuda**	**Colombia**	**Total**
	$	**$**	**$**	**$**
Cash and cash equivalents	**62,658**	**2,360**	**368**	**65,386**
Exploration and evaluation assets	**–**	**–**	**102,898**	**102,898**
Total assets	**64,656**	**2,360**	**114,524**	**181,540**
Total liabilities	**2,994**	**–**	**14,525**	**17,519**
Net income (loss)	**(685)**	**(178)**	**731**	**(132)**
Capital expenditures	**92**	**–**	**18,248**	**18,340**

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 income (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 of U.S. Dollars)	**As at June 30, 2012**	As at December 31, 2011
	$	$
Office equipment	**670**	658
Computer equipment	**404**	415
Vehicles	**420**	333
Exploration equipment	**107**	28
Mining and plant equipment	**1,428**	1,453
Mine development costs	**954**	736
Buildings	**417**	438
Leasehold improvements	**570**	542
Land	**1,934**	1,208
Total	**6,904**	5,811

Cost (in 000's of 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 June 30, 2012**
	$	$	$	**$**	**$**	**$**	**$**
Office equipment	296	626	(42)	**880**	**87**	**(4)**	**963**
Computer equipment	243	346	(6)	**583**	**57**	**(1)**	**639**
Vehicles	362	172	(75)	**459**	**146**	**(33)**	**572**
Exploration equipment	30	9	–	**39**	**81**	**–**	**120**
Mining and plant equipment	1,705	370	(284)	**1,791**	**81**	**–**	**1,872**
Mine development costs	537	199	–	**736**	**218**	**–**	**954**
Buildings	193	257	–	**450**	**5**	**(15)**	**440**
Leaseholds improvements	216	495	(70)	**641**	**92**	**–**	**733**
Land	230	978	–	**1,208**	**726**	**–**	**1,934**
Total	3,812	3,452	(477)	**6,787**	**1,493**	**(53)**	**8,227**

Accumulated Depreciation (in 000's of 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 June 30, 2012**
	$	$	$	**$**	**$**	**$**	**$**
Office equipment	81	141	–	**222**	**75**	**(4)**	**293**
Computer equipment	77	95	(4)	**168**	**68**	**(1)**	**235**
Vehicles	86	77	(37)	**126**	**53**	**(27)**	**152**
Exploration equipment	8	3	–	**11**	**2**	**–**	**13**
Mining and plant equipment	104	239	(5)	**338**	**106**	**–**	**444**
Buildings	–	12	–	**12**	**11**	**–**	**23**
Leaseholds improvements	–	99	–	**99**	**64**	**–**	**163**
Total	356	666	(46)	**976**	**379**	**(32)**	**1,323**

Depreciation for the three and six months ended June 30, 2012 of $109,000 and $170,000, respectively (three and six months ended June 30, 2011 - $15,000 and $56,000, respectively; year ended December 31, 2011 - $376,000) is included in depreciation and amortization in the consolidated statements of operations and comprehensive income (loss). Depreciation for the three and six months ended June 30, 2012 of $100,000 and $209,000, respectively (three months and six months ended June 30, 2011 - $128,000 and $134,000, respectively; 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 June 30, 2012**
	$	**$**	**$**	**$**	**$**
Anza (a)	**5**	**–**	**(5)**	**–**	**–**
Berlin	**14,114**	**215**	**–**	**–**	**14,329**
Buriticá (b)	**62,598**	**20,746**	**(1,677)**	**–**	**81,667**
Dojura (c)	**1,265**	**1**	**(186)**	**–**	**1,080**
Dominical	**4,949**	**275**	**–**	**–**	**5,224**
Santander	**590**	**8**	**–**	**–**	**598**
Total	**83,521**	**21,245**	**(1,868)**	**–**	**102,898**

(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.

On June 29, 2012, the Company received $250,000 and 250,000 shares of the option holder (valued at $57,000) as its share of option payments pursuant to the option agreement.

The excess of option payments received exceeding the net book value of the property on the date of receipt are recognized in other income on the consolidated statements 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 and six months ended June 30, 2012 of $885,000 and $1,677,000, respectively (three and six months ended June 30, 2011 - $1,965,000 and $3,900,000, respectively) 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 and six months ended June 30, 2012 of $nil and $250,000, respectively (three and six months ended June 30, 2011 - $nil and $150,000, respectively) and paid the required 25% portion of $nil and $64,000, respectively (three and six months ended June 30, 2011 - $nil and $32,000, respectively) to a company controlled by the Chairman of the Company, 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 and option agreement 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 indirectly 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 dated January 16, 2008 and expiring September 7, 2012 (Note 11(h)).

6. INVESTMENT IN ASSOCIATES

Investment in associates consists of the following:

(in 000's of U.S. Dollars)	Sabre Minerals Inc. (a)	ThunderBolt 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	**(78)**	**(49)**	**–**	**(127)**	–
Closing Balance at June 30	**494**	**369**	**2,526**	**3,389**	–

(a) During the six months ended June 30, 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 and indirectly controlled by the Chairman of the Company. The Company also received shares of Sabre in consideration for the waiver of the Company's option on the properties transferred to Sabre by a company controlled by the Chairman of the Company.

In addition, the Company paid an additional C$502,000 to Sabre and received a convertible promissory note which provides the Company the right to convert the receivable, at its option, into shares of Sabre. During the six months ended June 30, 2012, the Company subscribed for shares of Sabre through the conversion of C$250,000 of the convertible promissory note.

As at June 30, 2012, the Company owned approximately 15% of Sabre. 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.

(b) During the six months ended June 30, 2012, the Company paid C$414,000 to ThunderBolt Resources Inc. ("ThunderBolt") (formerly Nighthawk Resources Inc.), a private company incorporated in the Province of Ontario, Canada and indirectly controlled by the Chairman of the Company. The Company also received a convertible promissory note which provides the Company the right to convert the receivable, at its option, into shares of ThunderBolt. The Company immediately subscribed for shares of ThunderBolt through the conversion of C$70,000 of the convertible promissory note. The Company also received shares of ThunderBolt in consideration for the waiver of the Company's option on the properties transferred to ThunderBolt by a company controlled by the Chairman of the Company.

As at June 30, 2012, the Company owns approximately 15% of ThunderBolt. The Company has accounted for its investment in ThunderBolt as an investment in associate as the Company continues to have significant influence over the activities of ThunderBolt.

(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 manages the activities of OTU.

7. CANADIAN DOLLAR-DENOMINATED WARRANTS

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

	June 30, 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)	**72,000**	**70**	252,000	686
Exercised	**(72,000)**	**(70)**	(7,223,949)	(50,885)
Expired	**–**	**–**	(7)	–
Fair value revaluation of liability	**–**	**(4,202)**	–	(33,999)
Balance, end of period	**6,144,000**	**2,444**	6,144,000	6,646
Current portion	**6,144,000**	**2,444**	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 June 30, 2012, no such notice had been given by the Company.

(a) For the six months ended June 30, 2012, nil warrants (six months ended June 30, 2011 – 110,209 warrants) were issued as a result of the exercise of nil broker warrants (six months ended June 30, 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 six months ended June 30, 2012 was $nil (six months ended June 30, 2011 - $770,000).

A derivative gain of $nil was recognized in the consolidated statements of operations and comprehensive income (loss) for the six months ended June 30, 2012 (six months ended June 30, 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 and six months ended June 30, 2012, 72,000 warrants (three and six months ended June 30, 2011 – 36,000 and 252,000 warrants, respectively) were issued as a result of the exercise of 144,000 broker warrants (three and six months ended June 30, 2011 – 72,000 and 504,000 broker warrants, respectively) 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 and six months ended June 30, 2012 was estimated at $70,000 (three and six months ended June 30, 2011 – $65,000 and $686,000, respectively).

The fair value of the outstanding warrants on June 30, 2012 was $2,444,000 (December 31, 2011 - $6,646,000; March 31, 2012 - $7,268,000), resulting in a derivative gain recognized in the consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2012 of $4,824,000 and $4,202,000, respectively (three and six months ended June 30, 2011 – $1,502,000 and $23,514,000, respectively). 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 and six months ending June 30, 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 six months ended June 30, 2011:

	Six months ended June 30, 2011
Expected dividend yield	nil
Expected volatility	100%
Risk-free interest rate	1.52% to 1.9%
Period to expiry on date of exercise or revaluation	0.01 to 0.58 years

8. SHARE CAPITAL

(a) **Authorized**

At June 30, 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 June 30, 2012, the issued share capital was 110,331,516 common shares. All issued shares are fully paid. No preferred shares are issued. The change in issued share capital for the six months ended June 30, 2012 and 2011 were as follows:

	Number of Shares	
	2012	2011
Balance, January 1	**108,145,007**	98,548,890
Issue of shares – asset purchase	**–**	495,106
Exercise of stock options	**80,211**	513,899
Exercise of warrants (Notes 7 and 9(a))	**1,962,298**	7,165,484
Exercise of broker warrants (Note 9(b))	**144,000**	724,417
Balance, June 30	**110,331,516**	107,447,796

9. WARRANTS AND BROKER WARRANTS RESERVE

(a) **Warrants**

	June 30, 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 June 30, 2012.

(b) **Broker warrants**

	June 30, 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	**(144,000)**	**(527)**	(724,417)	(1,968)
Balance, end of period	**72,000**	**263**	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 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
		C$		C$
Balance, January 1	**6,868,285**	**4.10**	5,667,196	2.02
Granted [*](b)	**2,798,788**	**7.73**	2,197,500	8.30
Exercised	**(80,211)**	**1.66**	(513,899)	1.25
Forfeited	**(280,000)**	**8.68**	(7,500)	1.50
Balance, June 30	**9,306,862**	**5.08**	7,343,298	3.96

(*) The weighted average grant date fair value of stock option grants during the three and six months ended June 30, 2012 was $3.00 and $3.13, respectively (three and six months ended June 30, 2011 - $4.88 and $5.21, respectively).

The following table shows the stock options outstanding at June 30, 2012:

	Stock Options Outstanding			Stock Options Exercisable		
Range of Price C$	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	3.52	1.36	3,408,074	3.52	1.36
$2.01 – $4.00	685,000	2.86	2.35	685,000	2.86	2.35
$4.01 - $6.00	150,000	3.17	5.80	150,000	3.17	5.80
$6.01 - $8.00	4,361,288	4.34	7.68	1,370,000	3.86	7.60
$8.01 – $9.84	702,500	3.90	9.42	476,875	3.84	9.51
	9,306,862	3.88	5.08	6,089,949	3.54	3.62

(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 six months ended	**June 30, 2012**	June 30, 2011
Number of stock options granted	**2,798,788**	2,197,500
Weighted average exercise price (C$)	**7.73**	8.30
Weighted average market price ($)	**7.74**	8.50
Expected dividend yield	**nil**	nil
Expected volatility	**58.48%**	100%
Weighted average risk-free interest rate	**1.15%**	1.88%
Forfeiture rate	**7.08%**	4.90%
Weighted expected life (years)	**3.12**	2.88
Weighted average grant date fair value (per share)	**$3.13**	$5.21

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 six months ended (in 000's of U.S. Dollars)	Note	**June 30, 2012**	June 30, 2011
		$	$
Share-based payments, included in corporate administration expenses		**2,693**	3,135
Share-based payments capitalised to exploration and evaluation assets		**2,352**	2,541
		5,045	5,676

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 and six months ended June 30, 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 $885,000 and $1,677,000, respectively (three and six months ended June 30, 2011 - $1,094,000 and $1,720,000, respectively) and are reported as a reduction to exploration and evaluation assets on the consolidated statements of financial position. As at June 30, 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 June 30, 2012, $641,000 (December 31, 2011 - $nil) was included in long-term receivable relating to exploration and administrative expenditures incurred by the Company on behalf of ThunderBolt, 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 ThunderBolt.

(d) As at June 30, 2012, $359,000 (December 31, 2011 - $nil) was included in long-term receivable relating to exploration and administrative expenditures incurred by the Company on behalf of Sabre, 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 Sabre.

(e) During the three and six months ended June 30, 2012, $nil and $502,000, respectively (three and six months ended June 30, 2011 - $nil) was paid by Sabre to a company controlled by the Chairman of the Company for the repayment of canon payments.

(f) During the three and six months ended June 30, 2012, $nil and $418,000, respectively (three six months ended June 30, 2011 - $nil) was paid by ThunderBolt to a company controlled by the Chairman of the Company for the repayment of canon payments.

(g) During the three and six months ended June 30, 2012, option payments of $nil and $63,000, respectively (three and six months ended June 30, 2011 - $nil and $32,000, respectively), 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.

(h) 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

	Three months ended June 30		**Six months ended June 30**	
(in 000's of U.S. Dollars)	**2012**	2011	**2012**	2011
	$	$	**$**	$
Share-based payments	**1,495**	2,269	**2,693**	3,135
Salaries	**514**	285	**1,189**	665
Travel	**144**	67	**436**	162
General office and administration	**227**	277	**304**	559
Professional fees	**164**	166	**302**	318
Depreciation and amortization	**122**	88	**195**	153
Investor relations	**79**	119	**188**	214
Directors fees and expenses	**95**	54	**187**	146
Regulatory fees	**78**	45	**153**	106
Capital and equity tax	**(40)**	1,155	**(32)**	1,155
	2,878	4,525	**5,615**	6,613

13. CASH FLOW – OTHER ITEMS

(a) Other Operating Activities

	Three months ended June 30		Six months ended June 30	
(in 000's of U.S. Dollars)	**2012**	2011	**2012**	2011
	$	$	**$**	$
Other non-cash items:				
Depreciation and amortization	**122**	88	**195**	153
Interest and accretion expense	**7**	26	**12**	32
Loss (gain) on sale of assets	**6**	142	**(15)**	142
Interest income	**(7)**	(137)	**(15)**	(137)
	128	119	**177**	190
Net changes in non-cash operating working capital balances:				
Receivables and prepaid expenses	**(117)**	49	**(218)**	288
Accounts payable and accrued liabilities	**469**	(332)	**(667)**	(1,207)
Equity tax liability	**(157)**	(150)	**(157)**	(150)
	195	(433)	**(1,042)**	(1,069)

(b) Other Investing Activities

	Three months ended June 30		Six months ended June 30	
(in 000's of U.S. Dollars)	**2012**	2011	**2012**	2011
	$	$	**$**	$
Accounts payable and accrued liabilities attributable to exploration and evaluation assets	**730**	(390)	**1,981**	357
Prepaids and advances	**49**	814	**77**	(237)
Proceeds from disposal of assets	**8**	100	**36**	100
Restricted cash	**1**	(5)	**25**	179
Marketable securities	**(57)**	(64)	**(57)**	(64)
Intangible assets	**(91)**	(63)	**(123)**	(89)
	640	392	**1,939**	246

14. COMPARATIVE FIGURES

Certain comparative amounts in the consolidated statements of cash flow have been reclassified to present working capital items to exclude non-cash items.