CONTINENTAL GOLD
TSX : CNL OTCQX : CGOOF

Interim Consolidated Financial Statements

For the three and six months ended June 30, 2014 (unaudited)

Continental Gold Limited

INDEX

Continental Gold Limited

Consolidated Statements of Financial Position

As at (in thousands of U.S. Dollars)	Notes	June 30, 2014 (unaudited)	December 31, 2013 (audited)
		$	$
Assets			
Current assets			
Cash and cash equivalents	5	**93,289**	117,526
Marketable securities	6	**3,801**	888
Receivables and prepaid expenses	7	**3,343**	3,338
		100,433	121,752
Non-current assets			
Prepaids and advances		**972**	2,317
Intangible assets		**87**	155
Property, plant and equipment	8	**9,271**	8,339
Exploration and evaluation assets	9	**185,259**	163,888
Investments in associates	10	**–**	862
		195,589	175,561
		296,022	297,313
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**5,645**	5,780
Non-current liabilities			
Rehabilitation provision		**1,452**	1,389
Deferred tax liability		**10,506**	11,397
		11,958	12,786
		17,603	18,566
Equity			
Share capital	12	**24**	24
Share premium reserve		**392,426**	391,998
Share-based payment reserve		**29,490**	28,094
Deficit		**(143,521)**	(141,369)
		278,419	278,747
		296,022	297,313

Commitments and contingencies 17

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 thousands of U.S. Dollars, except share and per share amounts)	Notes	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
		$	$	**$**	$
Operating expenses:					
Corporate administration	15	**(1,706)**	(3,558)	**(3,528)**	(6,107)
Exploration expense		**(92)**	(34)	**(178)**	(34)
Loss on sale or write-down of assets	8, 14(e)	**(2)**	(337)	**(2)**	(337)
		(1,800)	(3,929)	**(3,708)**	(6,478)
Other income (expense):					
Foreign exchange gain (loss)		**2,913**	(4,073)	**(1,076)**	(7,096)
Loss on marketable securities		**(1,706)**	(231)	**(591)**	(736)
Gain on loss of significant influence	6, 10	**–**	–	**1,600**	–
Share of net loss of investments in associates	10	**–**	(34)	**(22)**	(92)
Other income		**121**	610	**181**	634
Net loss before finance items and income tax		**(472)**	(7,657)	**(3,616)**	(13,768)
Finance income (expense):					
Interest income		**302**	437	**664**	930
Interest and accretion expense		**(5)**	(13)	**(10)**	(21)
Net loss before income tax		**(175)**	(7,233)	**(2,962)**	(12,859)
Income tax recovery (expense):					
Current		**(77)**	(202)	**(81)**	(380)
Deferred		**1,937**	(1,062)	**891**	(2,088)
Total income tax recovery (expense)		**1,860**	(1,264)	**810**	(2,468)
Net income (loss) and comprehensive income (loss) for the period attributable to the equity holders of the Continental Gold Limited		**1,685**	(8,497)	**(2,152)**	(15,327)
Net income (loss) per common share					
Basic and diluted		**0.01**	(0.07)	**(0.02)**	(0.12)
Weighted average number of common shares outstanding					
Basic		**126,778,115**	126,509,174	**126,735,596**	126,394,497
Diluted		**128,614,049**	126,509,174	**128,737,739**	126,394,497

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 thousands of U.S. Dollars)	Issued Capital: Share Capital (Note 12)	Issued Capital: Share Premium Reserve	Share-Based Payment Reserve	Deficit	Total
	$	$	$	$	$
Balance, December 31, 2013	**24**	**391,998**	**28,094**	**(141,369)**	**278,747**
Share-based payments (Note 13(b))	**–**	**–**	**1,599**	**–**	**1,599**
Exercise of share-based payments – cash proceeds	**–**	**225**	**–**	**–**	**225**
Fair value of share-based payments exercised	**–**	**203**	**(203)**	**–**	**–**
Net loss for the period	**–**	**–**	**–**	**(2,152)**	**(2,152)**
Balance, June 30, 2014	**24**	**392,426**	**29,490**	**(143,521)**	**278,419**
Balance, December 31, 2012	24	390,927	21,765	(116,060)	296,656
Share-based payments (Note 13(b))	–	–	4,073	–	4,073
Exercise of share-based payments – cash proceeds	–	499	–	–	499
Fair value of share-based payments exercised	–	317	(317)	–	–
Net loss for the period	–	–	–	(15,327)	(15,327)
Balance, June 30, 2013	24	391,743	25,521	(131,387)	285,901

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

Continental Gold Limited

Consolidated Statements of Cash Flows (unaudited)

(in thousands of U.S. Dollars)	Notes	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
		$	$	**$**	$
Cash provided by (used in):					
Operating activities:					
Net income (loss) for the period		**1,685**	(8,497)	**(2,152)**	(15,327)
Items not affecting cash:					
Foreign exchange (gain) loss		**(2,913)**	4,073	**1,076**	7,096
Loss on marketable securities		**1,706**	231	**591**	736
Gain on loss of significant influence	6, 10	**–**	–	**(1,600)**	–
Share-based payments	13(b)	**360**	1,273	**989**	2,283
Deferred tax (recovery) expense		**(1,937)**	1,062	**(891)**	2,088
Other non-cash items	16(a)	**104**	1,394	**177**	1,584
Changes in non-cash operating working capital balances	16(a)	**832**	49	**850**	(85)
		(163)	(415)	**(960)**	(1,625)
Investing activities:					
Exploration and evaluation assets	16(b)	**(13,250)**	(13,649)	**(22,146)**	(23,484)
Recoveries in property from gold sales	9(a)	**1,178**	1,833	**2,631**	3,594
Receivables related to mineral properties		**(323)**	(1,443)	**(542)**	1,351
Property, plant and equipment	8	**(302)**	(394)	**(1,307)**	(946)
Other investing activities	16(b)	**62**	(235)	**(1,293)**	(1,245)
		(12,635)	(13,888)	**(22,657)**	(20,730)
Financing activities:					
Cash proceeds from exercise of stock options		**64**	196	**226**	499
		64	196	**226**	499
Net change in cash and cash equivalents during the period		**(12,734)**	(14,107)	**(23,391)**	(21,856)
Cash and cash equivalents, beginning of period		**103,002**	159,383	**117,526**	169,983
Foreign exchange effect on cash balances		**3,021**	(3,793)	**(846)**	(6,644)
Cash and cash equivalents, end of period		**93,289**	141,483	**93,289**	141,483

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. 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., 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 "Continental Gold Limited Sucursal 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.

2. STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and effective for the six months ended June 30, 2014, 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 audited annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS.

The accounting policies followed in these unaudited interim consolidated financial statements are those applied in Notes 2, 3 and 5 of the Company's audited annual consolidated financial statements for the year ended December 31, 2013 and have been consistently applied throughout all periods presented as if these policies had always been in effect, except as described in Note 3 herein.

These unaudited interim consolidated financial statements were approved and authorized by the Audit Committee on August 7, 2014.

3. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(a) Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions. The nature and effect of the changes are explained below:

(i) IAS 32, *Financial Instruments: Presentation* ("IAS 32") has adopted amendments to IAS 32, effective January 1, 2014, which clarifies some of the requirements for offsetting financial assets and financial liabilities on the consolidated statement of financial position.

The changes to IAS 32 did not result in any adjustments to the Company's financial statements on January 1, 2014.

(ii) IFRIC 21, *Levies* sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that requires the payment of a levy and when a liability should be recognized.

The Company adopted IFRIC 21 on or after January 1, 2014. The change did not result in any adjustments to the Company's financial statements on January 1, 2014.

(b) New Accounting Standards and Interpretations

The following revised standards and amendments, unless otherwise stated, are effective on or after January 1, 2015 with early adoption permitted and have not been applied in preparing these unaudited interim consolidated financial statements. Management has not yet considered the potential impact of their adoption and does not plan to adopt these standards early.

(i) IFRS 9, *Financial Instruments* ("IFRS 9"), replaces IAS 39, *Financial Instruments – Recognition and Measurement* ("IAS 39") and some of the requirements of IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"). The objective of IFRS 9 is to establish principles for reporting of financial assets and financial liabilities in respect of the assessment of the amounts, timing and uncertainty of an entity's future cash flows.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

(ii) IFRS 15, *Revenue from Contracts with Customers* ('IFRS 15") replaces IAS 11, *Construction Contracts* ("IAS 11"), IAS 18, *Revenue* ("IAS 18") and some revenue-related interpretations. The objective of IFRS 15 is to provide a single comprehensive revenue recognition model that applies to contracts with customers using two approaches to recognizing revenue – at one point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of the revenue recognized.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.

(iii) Amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38") – Clarification of Acceptable Methods of Depreciation and Amortization.

The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

There are no other IFRS or IFRS Interpretations Committee ("IFRIC") interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. 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.

Supplemental information

The Company has provided information regarding unallocated assets, liabilities and net loss as supplemental information:

As at June 30, 2014 (in thousands of U.S. dollars)	**Corporate**	**Colombia**	**Total**
	$	**$**	**$**
Cash and cash equivalents	**92,653**	**636**	**93,289**
Exploration and evaluation assets	**–**	**185,259**	**185,259**
Total assets	**98,101**	**197,921**	**296,022**
Total liabilities	**510**	**17,775**	**18,285**

As at December 31, 2013 (in thousands of U.S. dollars)	Corporate	Colombia	Total
	$	$	$
Cash and cash equivalents	114,274	3,252	117,526
Exploration and evaluation assets	–	163,888	163,888
Total assets	118,250	179,063	297,313
Total liabilities	104	18,462	18,566

Period ended June 30, 2014 (in thousands of U.S. dollars)	**Corporate**	**Colombia**	**Total**
	$	**$**	**$**
Three months ended:			
Net income (loss)	**(123)**	**1,808**	**1,685**
Capital expenditures	**2**	**12,327**	**12,329**
Six months ended:			
Net income (loss)	**(2,563)**	**411**	**(2,152)**
Capital expenditures	**9**	**21,689**	**21,698**

Period ended June 30, 2013 (in thousands of U.S. dollars)	Corporate	Colombia	Total
	$	$	$
Three months ended:			
Net loss	(5,383)	(3,114)	(8,497)
Capital expenditures	–	12,598	12,598
Six months ended:			
Net loss	(10,646)	(4,681)	(15,327)
Capital expenditures	8	23,336	23,344

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

As at (in thousands of U.S. Dollars)	**June 30, 2014**	December 31, 2013
	$	$
Cash in banks and petty cash	**46,429**	56,413
Short-term bank deposits	**46,860**	61,113
Total	**93,289**	117,526

6. MARKETABLE SECURITIES

Marketable securities consisted of the following:

As at	**June 30, 2014**		December 31, 2013	
(in thousands of U.S. Dollars)	**Cost**	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Equity securities (a)	**4,283**	**3,239**	1,219	888
Warrant securities (b)	**440**	**562**	–	–
	4,723	**3,801**	1,219	888

Included in the Company's investment in equity and warrant securities is an investment in Cordoba Minerals Corp. ("Cordoba"), an unrelated public company.

On February 6, 2014, the Company invested C$1,000,000 for the subscription of 2,000,000 units of Cordoba. The units consisted of 2,000,000 common shares of Cordoba and 2,000,000 warrants with an exercise price of C$0.75 for one common share of Cordoba and an expiry date of February 6, 2017.

On March 28, 2014, Cordoba completed the acquisition of Sabre Metals Inc. ("Sabre") (the "Cordoba transaction"), an associate of the Company (See Note 10(a)). Upon completion of the Cordoba transaction, the Company's ownership of Cordoba was approximately 7%, including shares of Cordoba previously owned by the Company and the issuance of the above-noted units, and classified as marketable securities as fair value through profit and loss ("FVTPL") investments.

The Company has recognized a gain of $1,600,000 in the unaudited interim consolidated statement of operations and comprehensive income (loss) for the six months ended June 30, 2014 resulting from the revaluation and reclassification of the Sabre investment, which was previously accounted for as an investment in associate, due to the loss of significant influence.

(a) **Equity securities**

Equity securities are classified as FVTPL and are recorded at fair value using the bid price as at June 30, 2014 and are therefore classified as level 1 within the fair value hierarchy.

(b) **Warrant securities**

Warrant securities are classified as FVTPL and are recorded at fair value using a Black-Scholes option pricing model using observable inputs and are therefore classified as level 2 within the fair value hierarchy.

Warrant securities include 1,200,000 warrants for an unrelated third party that is listed on the TSX with an exercise price of C$0.125 per warrant with a term of 2 years subject to an accelerated expiry provision should the third party's share price equal or exceed C$0.225 for 10 consecutive days. On July 10, 2014, subsequent to the completion of a merger between two unrelated parties, both of which are listed on the TSX, these warrants were converted to 450,000 warrants at an exercise price of C$0.375 per warrant with an expiry date of March 5, 2016 for the unrelated successor company.

7. RECEIVABLES AND PREPAID EXPENSES

As at (in thousands of U.S. dollars)	**June 30, 2014**	December 31, 2013
	$	$
Accounts receivable (a), (b)	**2,415**	2,588
Other receivables (b)	**500**	524
Income tax receivable	**270**	144
Prepaid expenses	**158**	82
	3,343	3,338

(a) **Accounts receivable**

Accounts receivable includes $1,912,000 (2013 - $1,601,000) of Colombia value-added-tax refund receivable.

As at June 30, 2014, $23,000 (December 31, 2013 – $24,000) was included in current receivables relating to exploration and administrative expenditures incurred by the Company on behalf of Sabre. The receivable was subsequently transferred to Cordoba, an unrelated third party, upon completion of the Cordoba transaction, and is included in accounts receivable at June 30, 2014 (December 31, 2013 – other receivables).

(b) **Other receivables**

As at June 30, 2014, a loan receivable of $500,000 (December 31, 2013 – $500,000) from an unrelated third party was outstanding with a maturity date of September 1, 2014 (December 31, 2013 – maturity date of March 1, 2014). The Company received a general security agreement over the third party's personal property.

On March 1, 2014, the Company received warrants (Note 6(b)) from the third party in exchange for the extension of the maturity date from March 1, 2014 to September 1, 2014. Upon receipt of the warrants, the Company recognized $53,000 in other income in the unaudited interim consolidated statement of operations and comprehensive income (loss) for the six months ended June 30, 2014.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(in thousands of U.S. dollars)	Land and Buildings	Vehicles, Mining and Exploration Equipment	Leasehold Improvements, Office and Computer Equipment	Total
	$	$	$	$
Balance, January 1, 2013				
Cost	3,137	3,199	2,532	8,868
Accumulated depreciation	(35)	(728)	(919)	(1,682)
Net book value	3,102	2,471	1,613	7,186
Year ended December 31, 2013				
Opening net book value	3,102	2,471	1,613	7,186
Additions	1,118	683	371	2,172
Disposals and write-downs	(31)	(162)	(27)	(220)
Depreciation	(26)	(336)	(437)	(799)
Closing net book value	4,163	2,656	1,520	8,339

(in thousands of U.S. dollars)	Land and Buildings	Vehicles, Mining and Exploration Equipment	Leasehold Improvements, Office and Computer Equipment	Total
Balance, December 31, 2013				
Cost	4,224	3,689	2,876	10,789
Accumulated depreciation	(61)	(1,033)	(1,356)	(2,450)
Net book value	4,163	2,656	1,520	8,339
Six months ended June 30, 2014				
Opening net book value	**4,163**	**2,656**	**1,520**	**8,339**
Additions	**698**	**470**	**139**	**1,307**
Disposals and write-downs	**–**	**–**	**(2)**	**(2)**
Depreciation	**(32)**	**(185)**	**(156)**	**(373)**
Closing net book value	**4,829**	**2,941**	**1,501**	**9,271**
Balance, June 30, 2014				
Cost	**4,922**	**4,159**	**3,009**	**12,090**
Accumulated depreciation	**(93)**	**(1,218)**	**(1,508)**	**(2,819)**
Net book value	**4,829**	**2,941**	**1,501**	**9,271**

Depreciation for the three and six months ended June 30, 2014 of $97,000 and $124,000, respectively (three and six months ended June 30 2013 – of $80,000 and $190,000, respectively) is included in depreciation and amortization in the unaudited interim consolidated statement of operations and comprehensive income (loss); and depreciation for the three and six months ended June 30, 2014 of $138,000 and $249,000, respectively (three and six months ended June 30, 2013 – $100,000 and $190,000, respectively) is capitalized in exploration and evaluation assets.

Loss on sale or write-down of equipment for both of the three and six months ended June 30, 2014 of $2,000 (three and six months ended June 30, 2013 – $20,000 for both periods) is included in the unaudited interim consolidated statement of operations and comprehensive income (loss).

9. EXPLORATION AND EVALUATION ASSETS

(in thousands of U.S. dollars)	Balance December 31, 2013	Additions	Gold Sales, Options and Recoveries	Disposals or Write-downs	Balance June 30, 2014
	$	$	$	$	$
Berlin	14,198	12	–	–	14,210
Buriticá(a)	149,690	23,990	(2,631)	–	171,049
Total	163,888	24,002	(2,631)	–	185,259

(in thousands of U.S. dollars)	Balance December 31, 2012	Additions	Gold Sales, Options and Recoveries	Disposals or Write-downs	Balance December 31, 2013
	$	$	$	$	$
Berlin	14,401	158	–	(361)	14,198
Buriticá (a)	99,908	56,401	(6,619)	–	149,690
Dojura	1,118	307	–	(1,425)	–
Dominical	5,233	(565)	–	(4,668)	–
Santander	494	66	–	(560)	–
Total	121,154	56,367	(6,619)	(7,014)	163,888

(a) **Buriticá Project**

The Buriticá project includes the Yaraguá mine that had previously been under small-scale production by the Company and is now utilized for underground exploration development and a bulk sample testing operation.

Gold concentrate inventory of $445,000 as at June 30, 2014 (December 31, 2013 - $8,000) is included in mineral properties. Inventory is recorded at cost as the Company capitalizes its pre-production revenues and costs. During the three and six months ended June 30, 2014 and 2013, no amounts have been expensed in the unaudited interim consolidated statement of operations and comprehensive income (loss).

Gold sales from pre-production and bulk sampling revenues for the three and six months ended June 30, 2014 of $1,178,000 and $2,631,000, respectively (three and six months ended June 30, 2013 of $1,833,000 and $3,594,000, respectively) were credited against the capitalized expenditures.

10. INVESTMENTS IN ASSOCIATES

Investments in associates consist of the following:

(in thousands of U.S. dollars)	Sabre Metals Inc. (a)	ThunderBolt Resources Inc.	Total
	$	$	$
Balance, January 1, 2013	667	353	1,020
Additional investment	391	–	391
Share of net loss	(196)	(36)	(232)
Impairment adjustment (Note 14(e))	–	(317)	(317)
Balance, December 31, 2013	862	–	862
Additional investment	113	–	113
Share of net loss	(22)	–	(22)
Loss of significant influence (a)	(953)	–	(953)
Balance, June 30, 2014	–	–	–

(a) **Sabre Metals Inc.**

As at December 31, 2013, the Company invested a total of C$820,000 and C$410,000 and received, respectively, common shares in and a convertible promissory note from Sabre, a private company incorporated in the Province of Ontario, Canada and indirectly controlled by the former Chairman of the Company (the "former Chairman"). The Company also received shares of Sabre in consideration for the waiver of the Company's option on certain properties transferred to Sabre by a company controlled by the former Chairman. In January 2014, the Company invested an additional C$108,000 in Sabre in the form of a convertible promissory note under the same terms and conditions as noted above.

The convertible promissory notes were unsecured and bore interest at a rate of 8% per annum, which were payable upon the maturity date, being the earlier of September 6, 2015 and the date the shares of Sabre or its successor company commences trading on a recognized stock exchange in Canada. The convertible promissory notes provided the Company the right to convert the receivable, at its option, into common shares of Sabre prior to the maturity date at a conversion price equal to the lesser of C$0.50 per share and the price per share in a subsequent equity financing, if completed prior to conversion, less a 30% discount. The convertible promissory notes and accrued interest were converted to shares of Sabre immediately prior to closing of the Cordoba transaction.

Prior to the Cordoba transaction, the Company accounted for its investment in Sabre as an investment in an associate. Upon closing of the Cordoba transaction, the Company's ownership in Cordoba is approximately 7%, including shares of Cordoba owned by the Company prior to the closing of the Cordoba transaction, resulting in the reclassification of the investment to marketable securities as a result of a loss of significant influence. The fair value of Cordoba shares and warrants received upon the closing of the Cordoba transaction in exchange for Sabre shares was $2,553,000 and as a result, the Company recognized a gain of $1,600,000 in the unaudited interim consolidated statement of operations and comprehensive income (loss) for the six months ended June 30, 2014 for the revaluation and reclassification of the investment in Sabre for the loss of significant influence.

11. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 5 of the Company's audited annual financial statements for the year ended December 31, 2013.

Financial assets and financial liabilities as at June 30, 2014 and December 31, 2013 were as follows:

As at June 30, 2014 (in thousands of U.S. Dollars)	**Fair Value through profit and loss**	**Loans and receivables and held-to-maturity**	**Other financial assets/ (liabilities)**	**Total**
	$	$	$	$
Cash and cash equivalents	–	93,289	–	93,289
Marketable securities	3,801	–	–	3,801
Receivables	–	3,185	–	3,185
Accounts payable and accrued liabilities	–	–	(5,495)	(5,495)
Equity tax liability	–	–	(150)	(150)
Total	3,801	96,474	(5,645)	94,630

December 31, 2013 (in thousands of U.S. Dollars)	Fair Value through profit and loss	Loans and receivables and held-to-maturity	Other financial assets/ (liabilities)	Total
	$	$	$	$
Cash and cash equivalents	–	117,526	–	117,526
Marketable securities	888	–	–	888
Receivables	–	3,256	–	3,256
Accounts payable and accrued liabilities	–	–	(5,487)	(5,487)
Equity tax liability	–	–	(293)	(293)
Total	888	120,782	(5,780)	115,890

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities and equity tax liability approximate fair value because of the limited term of these instruments.

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate and price risk).

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

Fair Value hierarchy and liquidity risk disclosure:

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from its properties. The Company’s cash and cash equivalents are held with banks in Colombia, Bermuda and Canada. The Company limits material counterparty credit risk on these assets by dealing with financial institutions with credit ratings of at least A or equivalent, or those which have been otherwise approved. Amounts receivable at June 30, 2014 consist of receivables from unrelated parties. Current amounts receivable as of June 30, 2014 were $3,185,000 (December 31, 2013 – $3,256,000). Management believes that the credit risk concentration with respect to amounts receivable is minimal based on the Company's history with these unrelated parties and security held over the receivable.

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 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 of liquidity risk by proactively mitigating exposure through cash management, including forecasting its liquidity requirements with available funds and anticipated cash flows.

As at June 30, 2014, the Company had cash and cash equivalents of $93,289,000 (December 31, 2013 – $117,526,000) to settle current liabilities of $5,645,000 (December 31, 2013 - $5,780,000). The majority of the Company’s financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company also has various commitments detailed in Note 17.

For the three and six months ended June 30, 2014, the Company recorded a net income of $1,685,000 and a net loss of $2,152,000, respectively (three months and six months ended June 30, 2013 – net loss of $8,497,000 and $15,327,000, respectively) and reported an accumulated deficit as at June 30, 2014 of $143,521,000 (December 31, 2013 – $141,369,000).

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 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.

The Company has begun to examine it options to secure additional sources of funds, including public issuances and private placements.

Market risk

Interest rate risk
Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company has cash balances and no interest-bearing debt. Management believes that interest rate risk is remote as cash investments have maturities of less than one year.

Foreign currency risk
Foreign currency risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The Company's functional currency is the U.S. dollar. The Company conducts some of its operating and investing activities in currencies other than the U.S. dollar. The Company is therefore subject to gains or losses due to fluctuations in these currencies relative to the U.S. dollar.

The Company had the following foreign currency balances:

As at June 30, 2014	**Foreign Currency**	**Foreign Balance $(000's)**	**$(000's)**
Cash and cash equivalents	**COP**	**1,194,746**	**636**
Cash and cash equivalents	**CAD**	**83,976**	**78,702**
Marketable securities	**CAD**	**4,056**	**3,801**
Receivables	**COP**	**4,561,725**	**2,427**
Receivables	**CAD**	**287**	**269**
Accounts payable and accrued liabilities	**COP**	**8,754,425**	**4,658**
Accounts payable and accrued liabilities	**CAD**	**492**	**461**
Equity tax liability	**COP**	**282,846**	**150**

As at December 31, 2013	Foreign Currency	Foreign Balance $(000's)	$(000's)
Cash and cash equivalents	COP	6,277,483	3,252
Cash and cash equivalents	CAD	107,264	100,850
Marketable securities	CAD	945	888
Receivables	COP	3,329,735	1,725
Receivables	CAD	917	862
Accounts payable and accrued liabilities	COP	9,458,189	4,900
Accounts payable and accrued liabilities	CAD	110	103
Equity tax liability	COP	565,580	293

Commodity and equity price risk
The Company is exposed to price risk with respect to commodity price. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious minerals to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

Based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a year:

(i) The Company is exposed to foreign currency risk on fluctuations of financial instruments primarily relating to cash and cash equivalents that are denominated in Canadian dollars and Colombian pesos. As at June 30, 2014, had both the Canadian dollar and the Colombian peso strengthened/weakened by 10% against the U.S. dollar with all other variables held constant, the Company's reported net income (loss) for the six months ended June 30, 2014 would have been approximately $7,766,000 lower/higher.

Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market of precious metals. As of June 30, 2014, the Company was not a commercial producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Fair value

Fair market value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy, representing all recurring financial assets. The levels in the hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at June 30, 2014 (in thousands of U.S. dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Marketable securities	**3,239**	**562**	**–**	**3,801**
	3,239	**562**	**–**	**3,801**

As at December 31, 2013 (in thousands of U.S. dollars)	Level 1	Level 2	Level 3	Total
	$	$	$	$
Marketable securities	888	–	–	888
	888	–	–	888

As at June 30, 2014, there were no non-recurring financial assets or liabilities that were valued at fair value.

12. SHARE CAPITAL

(a) Authorized

The Company has an authorized share capital of $60,000 and may issue up 50,000,000,000 common shares with a par value of $0.000001 per share and up to 100,000,000 preferred shares with a par value of $0.0001, issuable in series. All issued shares are fully paid. No dividends have been paid or declared by the Company since inception.

(b) Issued

As of June 30, 2014, the issued share capital was 126,837,854. The change in issued share capital for the six months ended June 30, 2014 and 2013 were as follows:

	Number of Shares	
	2014	2013
Balance, January 1	**126,635,005**	126,191,155
Exercise of stock options (Note 13)	**202,849**	370,850
Balance, June 30	**126,837,854**	126,562,005

13. SHARE-BASED PAYMENTS

The Company has a stock option plan (the "Option Plan") and a deferred share unit plan (the "DSU Plan") in place. The maximum number of common shares issuable under all share-based compensation arrangements of the Company is equal to 10% of the issued and outstanding common shares of the Company from time to time. These plans are rolling plans as the number of shares reserved for issuance pursuant to the grant of stock options and DSUs will increase as the Company's issued and outstanding share capital increases. The aggregate number of shares reserved for issuance granted to any one individual in a 12-month period, pursuant to the share-based compensation arrangements of the Company, may not exceed 5% of the total number of common shares outstanding.

The DSU Plan provides that employees and directors of the Company may elect to receive up to 100% of their annual compensation in deferred share units ("DSUs"). DSUs will be credited to a participant by way of a bookkeeping entry in the books of the Company, the value of which is equivalent to a common share at that time. As of June 30, 2014, there were no DSUs outstanding.

Under the Option Plan, the Company may grant to directors, officers, employees and consultants share options to purchase common shares of the Company. Share options granted under the Option Plan will be for a term not to exceed 10 years.

Movements in share options during the period were as follows:

	2014		2013	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
		C$		C$
Balance, January 1	**9,930,762**	**5.82**	8,612,112	5.18
Granted (*)(a)	**1,625,000**	**3.64**	2,365,000	7.98
Exercised	**(202,849)**	**1.20**	(370,850)	1.36
Expired or Forfeited	**(333,125)**	**7.42**	(381,250)	8.30
Balance, June 30	**11,019,788**	**5.54**	10,225,012	5.85

(*) The weighted average grant date fair value of stock option grants during the three and six months ended June 30, 2014 were $1.52 and $1.52, respectively (three and six months ended June 30, 2013 – 2.92 and $3.25, respectively).

The following table shows the options outstanding and exercisable at June 30, 2014:

	Options Outstanding			Options Exercisable		
Range of Price (C$)	Number of Options Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (C$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (C$)
$0.41 - $2.00	2,610,975	1.34	1.42	2,610,975	1.34	1.42
$2.01 – $4.00	1,980,000	4.09	3.38	395,000	0.86	2.35
$4.01 - $6.00	675,000	2.13	5.37	525,000	1.64	5.55
$6.01 - $8.00	3,625,063	2.32	7.67	3,625,063	2.32	7.67
$8.01 – $9.66	2,128,750	3.14	9.01	1,362,500	2.91	9.07
	11,019,788	2.55	5.54	8,518,538	2.00	5.60

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

For the six months ended June 30	**2014**	2013
Number of options granted	**1,625,000**	2,365,000
Weighted average exercise price (C$)	**3.64**	7.98
Weighted average market price ($)	**3.34**	8.01
Expected dividend yield	**nil**	nil
Expected volatility	**67%**	56%
Weighted average risk-free interest rate	**1.14%**	1.20%
Forfeiture rate	**9.4%**	8.6%
Weighted expected life (years)	**3.13**	3.12
Weighted average grant date fair value ($)	**1.52**	3.25

The options granted have vesting terms of 1/4 every six months from the date of grant and have a five-year term.

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

		Three months ended June 30		**Six months ended June 30**	
(in thousands of U.S. Dollars)	Note	**2014**	2013	**2014**	2013
				$	$
Share-based payments, included in corporate administration expenses	15	**360**	1,273	**989**	2,283
Share-based payments capitalized to exploration and evaluation assets		**321**	853	**610**	1,790
		681	2,126	**1,599**	4,073

14. 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 periods from April 1, 2014 and June 3, 2014 and January 1, 2014 and June 3, 2014, aggregate gold sales to a refinery company, in which a former director of the Company has an equity interest and is an officer, amounted to $1,178,000 and $2,631,000, respectively (three and six months ended June 30, 2013 – $1,833,000 and $3,594,000, respectively) and are reported as a reduction to exploration and evaluation assets on the unaudited interim consolidated statement of financial position. The former director resigned effective June 3, 2014.

(b) Effective November 22, 2011, the Company entered into a consulting agreement with a company controlled by the former 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) On February 6, 2014, the Company loaned C$2,000,000 to a company controlled by the former Chairman of the Company to facilitate the closing of the Cordoba transaction. The promissory note bore interest of 2.5% per annum and was repaid upon closing of the Cordoba transaction. For the six months ended June 30, 2014, the Company received interest of $7,000 in respect of the promissory note, which has been recorded as interest income in the unaudited interim consolidated statement of operations and comprehensive income (loss).

(d) As at December 31, 2013, $24,000 was included in current receivables relating to exploration and administrative expenditures incurred by the Company on behalf of Sabre. The receivable was subsequently transferred to Cordoba, an unrelated third party, upon completion of the Cordoba transaction.

(e) For the three and six months ended June 30, 2013, the Company recorded a provision of $998,000, representing the receivable balance as at June 30, 2013 from ThunderBolt, an associate of the Company, in corporate administration and an impairment adjustment of $317,000 in respect of its investment in ThunderBolt.

(f) As of June 30, 2014, the Company has an outstanding letter of support to the Colombian Mining Authority representing a total of 257,690 hectares covered in exploration applications submitted on July 2, 2013 by Sabre, an associate of the Company prior to the completion of the Cordoba transaction on March 28, 2014. The letter of support indicates a financial commitment by the Company to financially support the exploration activities by Sabre that is limited to an approximate cost of $98/hectare, for future exploration expenditures for the three-year period commencing from the date a concession contract is registered in respect of the specified areas in the applications. The letter of support was required in order for Sabre to meet rules governing mineral exploration applications.

Subsequent to the completion of the Cordoba transaction, the letter of support transferred to Cordoba for only the properties and exploration activities originally covered by the application by Sabre.

As of August 7, 2014, the application process for Cordoba/Sabre is still underway and no mining concession contracts have been registered to Cordoba/Sabre in respect of the areas covered in the noted applications. There is no certainty as to the number of hectares that will be ultimately awarded to Cordoba/Sabre and the Company expects that the number of hectares, for which concession contracts may be granted, will be reduced, resulting in a reduced financial commitment for the Company. Areas for which concession contracts are not expected to be granted include, but are not limited to, previously-contracted areas and environmentally-protected areas. Under current Colombian mining law, exploration obligations commence upon the registration of concession contracts and, under previous interpretation of Colombian mining law, each applicant retains the right to desist from applications made before the Mining Authority at any point during the application phase, with no further liability to Cordoba or the Company.

Furthermore, the mining regulations requiring the issuance of letters of support for the application of exploration licenses have been temporarily suspended pending an independent review of the regulations. As a result, any outstanding letters of support are also temporarily suspended and are currently not in force. However, the suspension may be lifted at any time with any outstanding letters of support being in effect immediately.

15. CORPORATE ADMINISTRATION EXPENSES

		Three months ended June 30		Six months ended June 30	
(in thousands of U.S. Dollars)	Note	**2014**	2013	**2014**	2013
		$	$	**$**	$
Share-based payments	13(b)	**360**	1,273	**989**	2,283
Salaries		**480**	513	**934**	1,029
General office and administration		**209**	94	**386**	251
Professional fees		**202**	212	**334**	394
Directors fees and expenses		**107**	109	**214**	207
Investor relations		**121**	167	**212**	439
Travel expenses		**87**	70	**145**	168
Depreciation and amortization	8	**97**	86	**124**	210
Regulatory fees		**43**	36	**105**	128
Provision for bad debts	14(e)	**–**	998	**85**	998
		1,706	3,558	**3,528**	6,107

16. CASH FLOW – OTHER ITEMS

(a) Other Operating Activities

		Three months ended June 30		Six months ended June 30	
(in thousands of U.S. Dollars)		**2014**	2013	**2014**	2013
		$	$	**$**	$
Other non-cash items:					
Depreciation and amortization	8	**97**	86	**124**	210
Bad debt expense	14(e)	**–**	998	**85**	998
Non-cash interest and marketable securities received		**–**	(75)	**(66)**	(75)
Share of net loss in investments in associates		**–**	34	**22**	92
Interest and accretion expense		**5**	14	**10**	22
Loss on sale or write-down of assets	14(e)	**2**	337	**2**	337
		104	1,394	**177**	1,584

	Three months ended June 30		Six months ended June 30	
(in thousands of U.S. Dollars)	**2014**	2013	**2014**	2013
	$	$	**$**	$
Net changes in non-cash operating working capital balances:				
Receivables and prepaid expenses	**624**	8	**476**	48
Accounts payable and accrued liabilities	**208**	41	**374**	(133)
	832	49	**850**	(85)

(b) **Other Investing Activities**

		Three months ended June 30		Six months ended June 30	
(in thousands of U.S. Dollars)	Note	**2014**	2013	**2014**	2013
		$	$	**$**	$
Exploration and evaluation assets:					
Accounts payable and accrued liabilities attributable to exploration and evaluation assets		**(45)**	321	**876**	2,430
Exploration expenditures		**(13,205)**	(13,970)	**(23,022)**	(25,914)
		(13,250)	(13,649)	**(22,146)**	(23,484)
Other items:					
Investment in marketable securities	6	**–**	–	**(898)**	–
Investment in associates	10	**–**	–	**(100)**	–
Proceeds from sale of assets		**–**	56	**–**	100
Restricted cash		**–**	66	**–**	66
Intangible assets		**–**	(67)	**–**	(78)
Equity tax liability		**(147)**	(154)	**(147)**	(154)
Other receivables	7	**23**	(443)	**23**	(500)
Prepaids and advances		**186**	307	**(171)**	(679)
		62	(235)	**(1,293)**	(1,245)

17. COMMITMENTS AND CONTINGENCIES

Commitments

As at June 30, 2014, the Company had the following contractual commitments and obligations:

(in thousands of U.S. Dollars)	**Total**	**Less than 1 Year**	**Years 2 – 5**	**After 5 Years**
	$	**$**	**$**	**$**
Operating leases (a)	**736**	**613**	**123**	**–**
Capital commitments (b)	**5,364**	**5,364**	**–**	**–**
	6,100	**5,977**	**123**	**–**

(a) Non-cancellable operating lease payments in respect of the Company's office, warehouse and housing facilities in Toronto and Colombia.

(b) Capital commitments mainly relate to exploration drilling and the construction of the exploration tunnels. All costs will be capitalized to exploration and evaluation assets when incurred.

Environmental Contingencies

The Company's mining and exploration activities are subject to Colombian laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

In November 2013, the Company was assessed a fine of COP$2,947,500,000 from Corantioquia for alleged environmental infractions dating back to 2007 and 2008. The Company does not believe that the allegations have any merit and intends to vigorously defend this matter.

In 2014, the Company elected to utilize legislation allowing the Company to defer payment until all legal proceedings have concluded. As a result, the Company has not recognized the fine in the unaudited interim consolidated statement of financial position as at June 30, 2014 (December 31, 2013 - $1,527,000 was included in accounts payable and accrued liabilities). However, in the event that the fine is upheld, the Company would be further liable to pay interest, which could be up to approximately 29% per annum, on a simple interest basis, from February 7, 2014, the date of formal notification of the fine, to the date the fine is upheld.

The matter is currently in arbitration as the legal process in Colombia requires an arbitration process to first be attempted before proceeding to presentation of the case in the courts.