AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

INDEX

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING 1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION 4
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) 5
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY 6
CONSOLIDATED STATEMENTS OF CASH FLOWS 7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 8
1. NATURE OF OPERATIONS 8
2. BASIS OF PREPARATION 8
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS 10
4. SIGNIFICANT ACCOUNTING POLICIES 10
5. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS 20
6. OPERATING SEGMENTS 21
7. RESTRICTED CASH AND MARKETABLE SECURITIES 22
8. RECEIVABLES AND PREPAID EXPENSES 22
9. PREPAIDS AND ADVANCES 23
10. PROPERTY, PLANT AND EQUIPMENT 24
11. EXPLORATION AND EVALUATION ASSETS 25
12. INVESTMENTS IN ASSOCIATES 29
13. CANADIAN DOLLAR-DENOMINATED WARRANTS 31
14. EQUITY TAX LIABILITY 32
15. REHABILITATION PROVISION 33
16. FINANCIAL INSTRUMENTS 33
17. CAPITAL MANAGEMENT 37
18. INCOME TAXES 37
19. SHARE CAPITAL 39
20. WARRANTS AND BROKER WARRANTS RESERVE 39
21. SHARE-BASED PAYMENTS 40
22. RELATED PARTY TRANSACTIONS 42
23. CORPORATE ADMINISTRATION EXPENSES 44
24. EARNINGS PER SHARE 44
25. CASH FLOW – OTHER ITEMS 45
26. COMMITMENTS AND CONTINGENCIES 46
27. COMPARATIVE FIGURES 46

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Continental Gold Limited (the “Company”) were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the audited annual consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting responsibilities and for reviewing and approving the annual audited consolidated financial statements together with other financial information. An Audit Committee, whose members are not officers of the Company, assists the Board of Directors in fulfilling this responsibility. The Audit Committee, on behalf of the Board of Directors, meets with management to review the internal controls over the financial reporting process, the annual audited consolidated financial statements together with other financial information of the Company, and the auditor’s report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) Ari Sussman

Ari Sussman
Chief Executive Officer

(signed) Paul Begin

Paul Begin
Chief Financial Officer

March 7, 2013

[INSERT PWC AUDIT REPORT]

Continental Gold Limited

Consolidated Statements of Financial Position

As at (in 000's of U.S. Dollars)	Notes	December 31, 2012	December 31, 2011
		$	$
Assets			
Current assets			
Cash and cash equivalents		**169,983**	83,404
Marketable securities	7(b)	**1,284**	486
Receivables and prepaid expenses	8	**6,590**	1,154
		177,857	85,044
Non-current assets			
Restricted cash	7(a)	**66**	89
Long-term portion of receivables	22(d),(e)	**1,091**	–
Prepaids and advances	9	**1,892**	309
Intangible assets		**330**	288
Property, plant and equipment	10	**7,186**	5,811
Exploration and evaluation assets	11	**121,154**	83,521
Investments in associates	12	**1,020**	2,526
		132,739	92,544
		310,596	177,588
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	14	**2,420**	2,947
Income taxes payable	18	**193**	–
Canadian dollar-denominated warrants	13	**–**	6,646
		2,613	9,593
Non-current liabilities			
Equity tax liability	14	**293**	531
Rehabilitation provision	15	**373**	509
Deferred tax liability	18	**10,661**	11,151
		11,327	12,191
		13,940	21,784
Shareholders' equity			
Share capital	19	**24**	24
Share premium reserve		**390,927**	247,281
Warrants and broker warrants reserve	20	**–**	1,706
Share-based payment reserve		**21,765**	14,924
Deficit		**(116,060)**	(108,131)
		296,656	155,804
		310,596	177,588

Commitments and contingencies 26

APPROVED ON BEHALF OF THE BOARD:

(signed) Ari Sussman
Director

(signed) Paul Murphy
Director

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

Continental Gold Limited

Consolidated Statements of Operations and Comprehensive Income (Loss)

For the years ended (in 000's of U.S. Dollars, except share and per share amounts)	Notes	**December 31, 2012**	December 31, 2011
		$	$
Operating expenses:			
Corporate administration	22(b), 23	**(10,161)**	(12,143)
Exploration expense		**–**	(23)
Loss on sale or write-down of assets	10, 11(g)	**(105)**	(4,266)
		(10,266)	(16,432)
Other income (expense):			
Foreign exchange gain (loss)		**277**	(1,247)
Unrealized gain (loss) on marketable securities		**238**	(468)
Share of net loss of investments in associates	12	**(225)**	–
Gain on Canadian dollar-denominated warrants	13	**651**	33,999
Other income		**521**	166
Net income (loss) before finance items and income tax		**(8,804)**	16,018
Finance income (expense):			
Interest income		**837**	1,186
Interest and accretion expense		**(42)**	(83)
Net income (loss) before income tax		**(8,009)**	17,121
Income tax (expense) recovery:			
Current		**(429)**	(316)
Deferred		**509**	1,399
Total income tax recovery	18	**80**	1,083
Net income (loss) and comprehensive income (loss) for the year attributable to the equity holders of Continental Gold Limited		**(7,929)**	18,204
Net income (loss) per common share			
Basic		**(0.07)**	0.17
Diluted		**(0.07)**	0.16
Weighted average number of common shares outstanding			
Basic	24(a)	**112,441,940**	105,984,457
Diluted	24(b)	**112,441,940**	113,594,629

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

Continental Gold Limited
Consolidated Statements of Changes in Shareholders' Equity

(in 000's of U.S. Dollars)	Issued Capital		Reserves			
	Share Capital (Note 19)	**Share Premium Reserve**	**Warrants and Broker Warrants Reserve**	**Share-Based Payment Reserve**	**Deficit**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2010	17	168,688	3,719	6,395	(126,335)	52,484
Issue of shares – asset purchase (Note 22(l))	–	4,229	–	–	–	4,229
Fair value of warrants issued	–	(1,456)	–	–	–	(1,456)
Exercise of warrants – cash proceeds	7	15,918	–	–	–	15,925
Fair value of warrants exercised	–	50,930	(45)	–	–	50,885
Exercise of broker warrants – cash proceeds	–	3,259	–	–	–	3,259
Fair value of broker warrants exercised	–	1,968	(1,968)	–	–	–
Share-based payments	–	–	–	10,178	–	10,178
Exercise of share-based payments – cash proceeds	–	2,037	–	–	–	2,037
Fair value of share-based payments exercised	–	1,649	–	(1,649)	–	–
Cost of issue	–	59	–	–	–	59
Net income for the period	–	–	–	–	18,204	18,204
Balance, December 31, 2011	24	247,281	1,706	14,924	(108,131)	155,804
Issue of shares (Note 19(b)(i))	–	86,875	–	–	–	86,875
Fair value of warrants issued	–	(107)	–	–	–	(107)
Exercise of warrants – cash proceeds	–	49,081	–	–	–	49,081
Fair value of warrants exercised	–	6,999	(916)	–	–	6,083
Exercise of broker warrants – cash proceeds	–	1,211	–	–	–	1,211
Fair value of broker warrants exercised	–	790	(790)	–	–	–
Share-based payments	–		–	8,501	–	8,501
Exercise of share-based payments – cash proceeds	–	2,046	–	–	–	2,046
Fair value of share-based payments exercised	–	1,660	–	(1,660)	–	–
Cost of issue (Note 19(b)(i))	–	(4,909)	–	–	–	(4,909)
Net loss for the period	–	–	–	–	(7,929)	(7,929)
Balance, December 31, 2012	24	390,927	–	21,765	(116,060)	296,656

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

Continental Gold Limited

Consolidated Statements of Cash Flows

For the years ended (in 000's of U.S. Dollars)	Notes	**December 31, 2012**	December 31, 2011
		$	$
Cash provided by (used in):			
Operating activities:			
Net income (loss) for the year		**(7,929)**	18,204
Items not affecting cash:			
Share-based payments	21(b)	**4,406**	5,913
Loss on sale or write-down of assets	10, 11(g)	**105**	4,266
Share of net loss in investments in associates	12	**225**	–
Gain on Canadian dollar-denominated warrants	13	**(651)**	(33,999)
Equity tax expense	14	**–**	1,115
Deferred tax recovery	18	**(509)**	(1,399)
Unrealized (gain) loss on marketable securities		**(238)**	468
Unrealized foreign exchange (gain) loss		**(277)**	1,247
Other non-cash items	25(a)	**431**	54
Changes in non-cash operating working capital balances	25(a)	**(1,443)**	(32)
		(5,880)	(4,163)
Investing activities:			
Long-term receivables	8, 22(d),(e)	**(719)**	817
Investment in associates	12	**(1,170)**	(70)
Property, plant and equipment	10	**(2,227)**	(3,452)
Acquisition of exploration and evaluation assets	11(c),(e)	**–**	(2,000)
Exploration and evaluation assets	11	**(38,272)**	(30,009)
Recoveries in property from gold sales	11(c)	**5,169**	6,017
Other investing activities	25(b)	**(4,891)**	(940)
		(42,110)	(29,637)
Financing activities:			
Cash proceeds from equity financing, net of costs	19(b)(i)	**81,966**	–
Cash proceeds from exercise of stock options, warrants, and broker warrants		**52,338**	21,273
		134,304	21,273
Net change in cash and cash equivalents during the period		**86,314**	(12,527)
Cash and cash equivalents, beginning of period		**83,404**	97,208
Foreign exchange effect on cash balances		**265**	(1,277)
Cash and cash equivalents, end of period		**169,983**	83,404

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

NOTES TO 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

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.

2. BASIS OF PREPARATION

Statement of Compliance

The annual consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and outstanding as of December 31, 2012, as issued by the International Accounting Standards Board ("IASB").

These annual consolidated financial statements were approved and authorized by the Board of Directors on March 6, 2013.

Basis of Measurement

These annual consolidated financial statements have been prepared under the historical cost convention except for financial instruments, which are measured at fair value.

The Company engages principally in the acquisition, exploration and development of mineral properties in Colombia. The Company currently has interests in mineral properties, including a small-scale mining operation related to exploration work and considered by the Company to be in the pre-production stage. Substantially all of the Company's efforts are devoted to exploring, financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable. The Company's assets are located in Colombia and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values of the mineral properties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development activities and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims and non-compliance with regulatory and environmental requirements.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights.

The financial statements of subsidiaries are included in the annual consolidated financial statements from the date that control commences until the date the control ceases. Any remaining interest in the entity is re-measured to fair value on the date when control is lost, with the change in carrying amount recognized in profit or loss.

Investments in Associates

Associates are entities over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Company accounts for its investment in associates using the equity method of accounting. The Company's share of profits or losses of associates is recognized in the consolidated statement of operations and comprehensive income (loss).

Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investment in associates are recognized in the consolidated statement of operations and comprehensive income (loss).

Functional and Reporting Currency

The functional and reporting currency of the Company is the U.S. dollar. All financial information presented in U.S. dollars in these consolidated financial statements has been rounded to the nearest thousand except when otherwise indicated.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of the Company that makes strategic decisions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for rehabilitation provisions. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(a) Whether future economic benefits may be realized on exploration properties and the recoverability of exploration and evaluation expenditures capitalized;

(b) The inputs used in estimating the fair value share-based payment transactions;

(c) The assumptions used in determining the net present value of the rehabilitation provision included in the consolidated statement of financial position; and

(d) The inputs used in determining the various commitments and contingencies accrued in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of operations and comprehensive income (loss).

Non-monetary assets and liabilities are translated at the rate of exchange prevailing when the assets were acquired or the liabilities incurred. Revenue, expense items and capitalized exploration and evaluation expenditures are translated using the average rate of exchange during the financial statement periods, except for depreciation and amortization, which are translated at historic rates. Foreign exchange gains and losses resulting from the translation of transactions and balances denominated in foreign currencies are included in the consolidated statement of operations and comprehensive income (loss).

Cash and cash equivalents
Cash and cash equivalents include cash and highly liquid investments held in the form of high quality money market investments and certificates of deposit with investment terms of less than three months at acquisition. The majority of the Company's cash and cash equivalents are held in banks in Bermuda, Canada and Colombia. As at December 31, 2012 and December 31, 2011, the cash and cash equivalents balance was composed entirely of cash.

Financial instruments recognition, measurement, disclosure and presentation
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are classified into one of these five categories: held-to-maturity investments, loans and receivables, available-for-sale, fair value through profit or loss ("FVTPL") or other financial liabilities. All financial instruments and derivatives are measured on the consolidated statement of financial position date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument.

Financial assets
Financial assets are classified as FVTPL if they are acquired principally for the purpose of selling or repurchasing in the short-term and are measured at fair value with unrealized gains and losses recognized through operations. The Company's marketable securities are classified as FVTPL.

Financial assets are classified as loans and receivables and held to maturity if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially measured at the amount expected to be received, less a discount, when material, to reduce the loans and receivables to fair value. Subsequently, the assets are measured at amortized cost using the effective interest method less a provision for impairment. The Company's cash and cash equivalents, restricted cash, trade and other receivables are classified as loans and receivables and held-to-maturity.

Financial assets are classified as available for-sale if they are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently measured at fair value with unrealized gains and losses from re-measurement recognized in other comprehensive income (loss) except exchange gains and losses on translation of debt securities. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are transferred from other comprehensive income (loss) to net income (loss) within the consolidated statement of operations and comprehensive income (loss). At December 31, 2012, the Company has not classified any financial assets as available for sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities
Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the consolidated statement of operations and comprehensive income (loss).

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in the consolidated statement of operations and comprehensive income (loss) in the period in which they arise. The net gain or loss recognized in the consolidated statement of operations and comprehensive income (loss) excludes any interest paid on the financial liabilities.

Derivatives
Derivative assets and liabilities include derivative financial instruments that do not qualify as hedges, or are not designated as hedges and were classified as FVTPL. The Company's Canadian dollar-denominated warrants were classified as derivatives.

Impairment of financial assets
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired.

The criteria used to determine if objective evidence of an impairment exists include:

(i) Significant financial difficulty of the obligor;
(ii) Delinquencies in interest or principal payments;
(iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganization; and
(iv) Significant decline or prolonged loss in value.

If such evidence exists, the Company recognizes an impairment loss as follows:

1. Assets carried at amortized cost
   The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment either directly or indirectly through the use of an allowance account. The amount of the loss is recognized in the consolidated statement of operations and comprehensive income (loss).

   If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of operations and comprehensive income (loss).

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in the consolidated statement of operations and comprehensive income (loss) when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

2. Available-for-sale
An amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in the consolidated statement of operations and comprehensive income (loss), is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in the consolidated statement of operations and comprehensive income (loss).

De-recognition of financial assets and financial liabilities
Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in the consolidated statement of operations and comprehensive income (loss).

For financial liabilities, de-recognition occurs when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in the consolidated statement of operations and comprehensive income (loss).

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Intangible assets
Intangible assets, comprised of computer software, acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives of three years and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in consolidated statement of operations and comprehensive income (loss) in the year in which the expenditure is incurred.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of operations and comprehensive income (loss) when the asset is de-recognized.

Property, plant and equipment
Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of major overhauls of parts of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statement of operations and comprehensive income (loss) as incurred.

Property, plant and equipment are depreciated over the estimated useful lives of the assets using the straight-line or units-of-production method, as appropriate, as follows:

Office equipment	5 to 10 years
Computer equipment	5 years
Vehicles	5 years
Buildings	20 years or units-of-production when in commercial production
Mining and plant equipment	10 years or units-of-production when in commercial production
Mine development costs	Units-of-production when available for use
Leasehold improvements	Lease term
Land	Not depreciated

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Impairment of property, plant, equipment and intangible assets
Property, plant and equipment and finite life intangible assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset’s recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in operations. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. Any subsequent reversal of an impairment loss is recognized in operations.

Exploration and evaluation ("E&E") costs
Under IFRS 6, Exploration for and Evaluation of Mineral Resources, the Company has elected to continue with its accounting policy under Canadian GAAP.

Exploration and evaluation costs are those costs required to find a mineral property and determine technical feasibility and commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources are commercially viable. Costs incurred before the Company has obtained the legal right to explore an area are recognized in the consolidated statement of operations and comprehensive income (loss).

E&E costs relating to the acquisition of, exploration for and development of mineral properties are capitalized and include, but are not restricted to: drilling, trenching, sampling, surveying and gathering exploration data; calculation and definition of mineral resource; test work on geology, metallurgy, mining, geotechnical and geophysical; and conducting geological, geophysical, engineering, environmental, marketing and financial studies.

All pre-production and bulk sampling revenues are credited against the capitalized expenditures. Option payments received are credited to the related exploration and evaluation asset. Option payments received in excess of amounts capitalized are recognized in the consolidated statement of operations and comprehensive income (loss).

Administration costs that do not relate directly to specific exploration activity for capitalized projects are expensed as incurred.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Indicators of impairment include, but are not limited to:

(a) the period for which the right to explore is less than one year;

(b) further exploration expenditures are not anticipated;

(c) a decision to discontinue activities in a specific area; and

(d) the existence of sufficient data indicating that the carrying amount of an exploration and evaluation asset is unlikely to be recovered from the development or sale of the asset.

Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration and evaluation assets are not expected to be recovered, they are charged to operations.

Capitalized exploration and evaluation costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to mine development costs within property, plant and equipment. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves and/or a decision to commence construction of a mine. However, this determination may be impacted by management's assessment of certain modifying factors including: legal, environmental, social and governmental factors. All subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within mine development costs.

Upon the commencement of commercial production, capitalized costs will be transferred to the relevant asset classes within property, plant and equipment and charged to operations on a unit-of-production basis. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, future production or proceeds of disposition.

Business combinations and asset purchases

The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase. These assets are recognized at fair value.

Provisions

General

Provisions are recognized when:

(a) the Company has a present obligation (legal or constructive) as a result of a past event; and

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations and comprehensive income (loss). If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes study and analyses of known and potentially affected areas, dismantling and removing infrastructures and operating facilities, rehabilitating mines, tailings dams and waste dumps, closure of tunnel entry points, plant and waste sites, management and adequate disposal of underground waters from the tunnels, restoration, reclamation and re-vegetation of affected areas and post-closure monitoring.

The obligation generally arises when the asset is installed or the ground/ environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production. Over time, the discounted liability is increased for the change in present value based on the risk-free pre-tax discount rate in Colombia. The periodic unwinding of the discount is recognized in the consolidated statement of operations and comprehensive income (loss). Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations and comprehensive income (loss).

Canadian dollar-denominated warrants

The Company's Canadian dollar-denominated warrant instruments were classified as derivative financial liabilities and measured at fair value until the instrument is extinguished or exercised (Note 13). Fair value is determined based on quoted market prices for the warrants. If quoted market prices are not available, fair value is calculated using the Black-Scholes option pricing model. Any gain or loss arising from the revaluation of the Canadian dollar-denominated warrants is recognized in the consolidated statement of operations and comprehensive income (loss).

Warrants and broker warrants reserve

The Company's warrant and broker warrant instruments are classified as equity and measured at fair value on the date of issue (Note 20). If quoted market prices are not available, fair value is calculated using the Black-Scholes option pricing model. Subsequent to issue, the warrants and broker warrants are not revalued.

Income tax

Income tax is comprised of current and deferred tax. Income tax is recognized in the consolidated statement of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax assets and liabilities are presented as non-current.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 21.

The fair value determined at the grant date of the equity-settled share-based payments is determined using the Black-Scholes option pricing model and expensed on a graded vesting method of amortization over the period during which the employee becomes unconditionally entitled to exercise these equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of operations and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and share premium reserve. The related share-based payment reserve is transferred to share premium reserve. Upon expiry, the recorded value is transferred to deficit.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Revenue recognition
Revenue from gold bullion sales, including pre-production and bulk sampling revenues, is recognized when the significant risks and rewards of ownership have been transferred to the counterparty and the selling prices have been agreed or can be reasonably estimated.

Pre-production and bulk sampling revenues are recorded as a credit to exploration and evaluation assets.

Interest revenue
Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of operations and comprehensive income (loss) over the period of the lease.

Comprehensive income
Comprehensive income includes both net earnings and other comprehensive income ("OCI"). OCI includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income. Cumulative changes in OCI are included in accumulated OCI which is presented as a category in shareholders' equity. For the years ended December 31, 2012 and 2011, the comprehensive income (loss) equals net income (loss).

Earnings (loss) per share
Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to the equity holders of the Company by the weighted-average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated by adjusting the weighted-average number of common shares outstanding for dilutive instruments. The number of shares with respect to options, warrants and similar instruments is computed using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average share price for the period with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The Company's potential dilutive common shares comprise stock options, Canadian-dollar denominated warrants, warrants and broker warrants. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

5. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following revised standards and amendments, unless otherwise stated, are effective on or after January 1, 2013 with early adoption permitted and have not been applied in preparing these 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"), was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement* ("IAS 39"), for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment. However, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carry forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in OCI.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

(ii) IFRS 10, *Consolidated Financial Statements* ("IFRS 10") requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27").

(iii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements in a single standard for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(iv) IFRS 13, *Fair Value Measurement* ("IFRS 13"), is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(v) There have been amendments to existing standards, including IAS 27 and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vi) IAS 32, *Financial Instruments: Presentation* ("IAS 32"), clarify some of the requirements for offsetting financial assets and financial liabilities on the consolidated statement of financial position.

IAS 32 is effective for annual periods beginning on or after January 1, 2014 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.

6. 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:

December 31, 2012 (in 000's of U.S. dollars)	**Corporate**	**Colombia**	**Total**
	$	**$**	**$**
Cash and cash equivalents	**169,632**	**351**	**169,983**
Exploration and evaluation assets	**–**	**121,154**	**121,154**
Total assets	**174,079**	**136,517**	**310,596**
Total liabilities	**633**	**13,307**	**13,940**
Net loss	**(7,589)**	**(340)**	**(7,929)**
Capital expenditures	**200**	**35,385**	**35,585**

December 31, 2011 (in 000's of U.S. dollars)	Corporate	Colombia	Total
	$	$	$
Cash and cash equivalents	82,320	1,084	83,404
Exploration and evaluation assets	–	83,521	83,521
Total assets	84,492	93,096	177,588
Total liabilities	19,307	2,477	21,784
Net income (loss)	22,370	(4,166)	18,204
Capital expenditures	2,005	25,645	27,650

7. RESTRICTED CASH AND MARKETABLE SECURITIES

(a) **Restricted Cash**

Restricted cash includes $66,000 (2011 – $64,000) held as security against corporate credit cards by the Company's bank and pledged letters of credit in the amount of nil (2011 – $25,000).

(b) **Marketable Securities**

Marketable securities consisted of the following as at December 31, 2012:

	December 31, 2012		December 31, 2011	
	Cost	**Fair Value**	Cost	Fair Value
	($000's)	**($000's)**	($000's)	($000's)
Equity securities (i)	**906**	**1,054**	490	448
Warrants securities (ii)	**144**	**230**	154	38
	1,050	**1,284**	644	486

(i) Equity securities are classified as FVTPL and are recorded at fair value using the bid price as at December 31, 2012 and are therefore classified as level 1 within the fair value hierarchy.

(ii) Warrants 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.

The following were the assumptions used in determining fair value for the warrants:

	December 31, 2012	December 31, 2011
Expected dividend yield	**nil**	nil
Expected volatility	**189.80%**	144.16%
Risk-free interest rate	**1.14%**	0.97%
Expected life	**2.0 years**	0.5 years

8. RECEIVABLES AND PREPAID EXPENSES

As at (in 000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Proceeds receivable (a)	**–**	357
Accounts receivable (b)	**6,487**	674
Prepaid expenses	**103**	123
	6,590	1,154

(a) **Proceeds receivable**

The receivable represents the remaining balance of $nil (2011 - $357,000) from the sale of property in 2010.

The receivable was collected from 15% of the gross sales of gold production from the property with minimum annual payments of $200,000. As at December 31, 2012, the receivable had been repaid. At December 31, 2011, management had estimated that the receivable would be collected over five years with annual payments of $200,000. These payments were discounted using the discount rate as of December 31, 2011 of 12%. During 2012, the Company received $372,000 (2011 – $817,000) from the purchaser.

(b) **Accounts receivable**

Accounts receivable includes $5,849,000 (2011 - $262,000) of Colombia value-added-tax refund receivable.

9. PREPAIDS AND ADVANCES

As at (in $000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Prepaid construction costs (a)	**1,682**	–
Other prepaid exploration and evaluation costs	**210**	309
	1,892	309

Prepaids and advances represent advances for costs that will be capitalized when incurred.

(a) **Prepaid construction costs**

Prepaid construction costs represent advances to contractors for development costs that will be capitalized according.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

Cost (in 000's U.S. Dollars)	As at January 1, 2011	Additions	Disposals or write-downs	**As at December 31, 2011**	**Additions**	**Disposals or write-downs**	**As at December 31, 2012**
	$	$	$	**$**	**$**	**$**	**$**
Office equipment	296	626	(42)	**880**	**118**	**(4)**	**994**
Computer equipment	243	346	(6)	**583**	**161**	**(18)**	**726**
Vehicles	362	172	(75)	**459**	**184**	**(92)**	**551**
Exploration equipment	30	9	–	**39**	**82**	**–**	**121**
Mining and plant equipment	1,705	548	(284)	**1,969**	**–**	**–**	**1,969**
Mine development costs	537	21	–	**558**	**–**	**–**	**558**
Buildings	193	257	–	**450**	**24**	**(15)**	**459**
Leaseholds improvements	216	495	(70)	**641**	**188**	**(17)**	**812**
Land	230	978	–	**1,208**	**1,470**	**–**	**2,678**
Total	3,812	3,452	(477)	**6,787**	**2,227**	**(146)**	**8,868**

Accumulated Depreciation (in 000's U.S. Dollars)	As at January 1, 2011	Depreciation	Disposals or write-downs	**As at December 31, 2011**	**Depreciation**	**Disposals or write-downs**	**As at December 31, 2012**
	$	$	$	**$**	**$**	**$**	**$**
Office equipment	81	141	–	**222**	**180**	**(4)**	**398**
Computer equipment	77	95	(4)	**168**	**134**	**(5)**	**297**
Vehicles	86	77	(37)	**126**	**84**	**(62)**	**148**
Exploration equipment	8	3	–	**11**	**8**	**–**	**19**
Mining and plant equipment	104	239	(5)	**338**	**223**	**–**	**561**
Mine development costs	–	–	–	**–**	**–**	**–**	**–**
Buildings	–	12	–	**12**	**23**	**–**	**35**
Leaseholds improvements	–	99	–	**99**	**137**	**(12)**	**224**
Land	–	–	–	**–**	**–**	**–**	**–**
Total	356	666	(46)	**976**	**789**	**(83)**	**1,682**

Net book value (in 000's U.S. Dollars)	**As at December 31, 2012**	As at December 31, 2011
	$	$
Office equipment	**596**	658
Computer equipment	**429**	415
Vehicles	**403**	333
Exploration equipment	**102**	28
Mining and plant equipment	**1,408**	1,631
Mine development costs	**558**	558
Buildings	**424**	438
Leasehold improvements	**588**	542
Land	**2,678**	1,208
Total	**7,186**	5,811

Depreciation of $360,000 (2011 - $376,000) is included in depreciation and amortization in the consolidated statement of operations and comprehensive income (loss) and depreciation of $429,000 (2011 - $290,000) is capitalized in exploration and evaluation assets.

Gain on sale or write-down of equipment of $38,000 (2011 – loss of $166,000) is included in the consolidated statement of operations and comprehensive income (loss).

11. EXPLORATION AND EVALUATION ASSETS

(in 000's of U.S. dollars)	**Balance December 31, 2011**	**Additions**	**Gold Sales, Options and Recoveries**	**Disposals or Write-downs**	**Balance December 31, 2012**
	$	**$**	**$**	**$**	**$**
Anza (a)	**5**	**–**	**(5)**	**–**	**–**
Berlin (b)	**14,114**	**287**	**–**	**–**	**14,401**
Buriticá(c)	**62,598**	**42,479**	**(5,169)**	**–**	**99,908**
Dojura (d)	**1,265**	**39**	**(186)**	**–**	**1,118**
Dominical (e)	**4,949**	**284**	**–**	**–**	**5,233**
Santander (f)	**590**	**47**	**–**	**(143)**	**494**
Total	**83,521**	**43,136**	**(5,360)**	**(143)**	**121,154**

(in 000's of U.S. dollars)	Balance December 31, 2010	Additions	Gold Sales, Options and Recoveries	Disposals or Write-downs	Balance December 31, 2011
	$	$	$	$	$
Anza (a)	105	6	(106)	–	5
Arenosa (g)	744	9	–	(753)	–
Berlin (b)	13,724	390	–	–	14,114
Buriticá(c)	29,986	38,629	(6,017)	–	62,598
Dojura (d)	1,373	42	(150)	–	1,265
Dominical (e)	2,861	2,088	–	–	4,949
Santander (f)	531	59	–	–	590
Zaragoza (g)	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 “Optionors”) entered into an option agreement dated May 20, 2010 to option a contiguous group of properties (the “Properties”) including the Company’s Anza property. The Company is entitled to receive 25% of all consideration flowing to the Optionors pursuant to the option agreement and the letter of intent. Upon signing of the letter of intent on February 19, 2010, a non-refundable fee of $50,000 was paid to the Optionors, $12,500 of which was paid to the Company. In order to earn a 100% interest in the Properties, the option holder must annually make cash payments and issue common shares (the “Shares”) to the Optionors and incur a total of $4,000,000 of exploration expenditures, minimum, over four years on the Properties. The following is a summary of the required payments and minimum exploration expenditures to be paid and incurred by the option holder by the following dates:

	Expenditures	Payments to Optionors		Company Share of Payments to Optionors	
	$(000’s)	$(000’s)	Shares (000’s)	$(000’s)	Shares (000’s)
June 29, 2010	–	250	300	63	75
June 29, 2011	500	500	500	125	125
June 29, 2012	1,500	1,000	1,000	250	250
June 29, 2013	2,000	2,000	2,000	500	500

As of December 31, 2012, the Company received its share of option payments, in cash and shares, pursuant to the terms of the option agreement. The 250,000 shares received in 2012 were initially valued at $57,000 (2011 – 125,000 shares valued at $64,000). During 2012 and 2011, the option payments received exceeded the net book value of the property on the date of receipt. As a result, the excess of $302,000 (2011 - $83,000) was recognized in other income on the consolidated statement of operations and comprehensive income (loss). Subsequent expenditures continue to be capitalized according to the Company’s accounting policy for exploration and evaluation assets.

In addition, the Optionors will maintain a 2% net smelter royalty in the Properties. Furthermore, the option holder will have the option to purchase half of the net smelter royalty from the Optionors at a cost of $1,000,000. These amounts will be recognized as monies are received.

(b) **Berlin Property**

The Company purchased surface rights over 15 concessions in and around the Company’s Berlin property for a total purchase price of COP$1,200,000,000, or $613,000, pursuant to a purchase agreement dated January 21, 2010. In 2012, the Company paid $nil (2011 – COP$850,000,000 or $436,000) in respect of the purchase agreement.

No significant exploration activities were undertaken on the property during 2012 and 2011.

(c) **Buriticá Property**

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 $26,000 (December 31, 2011 - $nil) is included in mineral properties and is carried at the lower of cost and net realizable value. Inventory is

recorded at cost as the Company capitalizes its pre-production revenues and costs. During the years ended December 31, 2012 and 2011, no amounts have been expensed in the consolidated statement of operations and comprehensive income (loss).

Gold sales from pre-production and bulk sampling revenues of $5,169,000 (2011 - $6,017,000) were credited against the capitalized expenditures.

On October 19, 2012, the Company transferred to a company controlled by the Chairman of the Company ("the Chairman") certain mining concessions within the Buriticá property and its 25% equity interest in Minerales OTU S.A.S. ("OTU") in exchange for additional mining concessions that have now been included in the Company's Buriticá portfolio. As a result of this transaction, the Company added 28,731 hectares to the Buriticá project. See Note 22(h) for further details.

On May 5, 2011, the Company acquired property from the Chairman (Note 22(h)), of which $4,684,000 of the purchase cost was attributed and allocated to Buriticá.

On May 30, 2008, the Company entered into an option agreement to acquire a mining permit to land contiguous to the Buriticá project from an arm's length party for a total purchase price of $1,900,000. In 2012, the Company paid $nil (2011 – $1,100,000) in respect of the agreement.

(d) **Dojura Property**

The Company entered into an assignment agreement with a company controlled by the Chairman whereby the Company was assigned an option agreement with an unrelated third party ("the option holder"), dated October 4, 2006, in respect of the Dojura property.

The option holder is required to incur the following expenditures and payments from the date the option holder begins exploration in order to earn a 51% interest in the project:

(in 000's of U.S. dollars)	Expenditures	Payments to Company
	$	$
January 2010	–	100
First 12-month period; first anniversary – received January 2011	450	150
Second 12-month period; second anniversary – received January 2012	750	250
Third 12-month period; third anniversary	1,000	500
Fourth, fifth and sixth anniversaries (i)	–	400
Sixth anniversary	–	2,500

Any payments made by the option holder exceeding the requirements in the first and second twelve-month periods shall carry forward to the third twelve-month period.

In addition, the option holder is required to incur the following payments to the Company to earn an additional 24% in the project:

(i) After the third anniversary of commencement of exploration, semi-annual payments of $200,000 to the Company over a maximum 36-month period ending six years after the date of commencement of exploration or at the time a feasibility study is completed to the satisfaction of the option holder, whichever first occurs.

(ii) On the sixth anniversary of commencement of exploration or the date of the feasibility study, whichever first occurs, a final payment to the Company in the amount of $2,500,000.

The related party is entitled to 25% of all cash payments received by the Company with regards to the Dojura option agreement.

In 2011, work was halted on the Dojura project on a partial force majeure basis until such time as security conditions in the area improve; however, the Company expects the option holder to continue to pay any payments required to keep the option agreement in good standing. In 2012, the Company received $250,000 (2011 – $150,000) from the option holder with regard to the Dojura project.

In 2013, the Company agreed to temporarily postpone the January 15, 2013 option payment of $500,000 while the two parties discuss alternatives to the current agreement. If a mutually acceptable agreement cannot be reached within an agreed timeframe, the Company expects the option holder to make the January 15, 2013 payment forthwith and any other future payments contemplated in the original option agreement to keep the option agreement in good standing.

(e) **Dominical Property**

On May 5, 2011, the Company acquired property from the Chairman (Note 23(a)) of which $1,545,000 of the purchase cost has been allocated to the Dominical project based on the pro rata share of hectares acquired.

No significant exploration activities were undertaken on the property during 2012 and 2011.

(f) **Santander Property**

The Santander project was initially acquired in 2007, upon incorporation of the Company, from a company controlled by the Chairman.

No significant exploration activities were undertaken on the property during 2012 and 2011.

In February 2013, the Company voluntarily relinquished 1,001 hectares of its mineral exploration rights located in the Santander region within the newly-declared Parque Natural Regional Páramo de Santurbán (the “Páramo Park”). The Company intends to retain its remaining 3,471 hectares of mineral exploration rights in the Santander region are not impacted by the Páramo Park boundaries as it considers the ground prospective for precious metals. As a result, the Company has recognized a write-down of $143,000 in the consolidated statement of operations and comprehensive income (loss) in respect of the Santander property.

(g) **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 OTU in exchange for a 25% equity interest in OTU (representing the approximate proportion of hectares transferred by the Company to OTU) (Note 12(c)).

The remaining book value on October 27, 2011 of $5,803,000 for the Zaragoza property was transferred to investment in associate and along with the transfer of the Arenosa property, a loss of $4,100,000 was recorded on the transfer.

(h) **Lunareja Property**

The Lunareja property was written down to zero during the year ended December 31, 2010 as the majority of the registered concessions were within the boundaries of a national park, which is protected from mining.

12. INVESTMENTS IN ASSOCIATES

Investments in associates consist of the following:

(in 000's of U.S. dollars)	Sabre Metals Inc. (a)	ThunderBolt Resources Inc. (b)	Minerales OTU S.A.S. (c)	Total
	$	$	$	$
Balance, January 1, 2011	–	–	–	–
Initial investment in associate	–	–	2,456	2,456
Additional investment	–	–	70	70
Share of net loss	–	–	–	–
Balance, December 31, 2011	**–**	**–**	**2,526**	**2,526**
Initial investment in associate	**70**	**70**	**–**	**140**
Additional investment	**756**	**349**	**–**	**1,105**
Share of net loss	**(159)**	**(66)**	**–**	**(225)**
Disposal	**–**	**–**	**(2,526)**	**(2,526)**
Balance, December 31, 2012	**667**	**353**	**–**	**1,020**

(a) **Sabre Metals Inc.**

In 2012, the Company invested a total of C$820,000 and received common shares in Sabre Metals Inc. ("Sabre"), a private company incorporated in the Province of Ontario, Canada and indirectly controlled by the 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 Chairman.

As at December 31, 2012, the Company owned approximately 16% 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 through the involvement of the Company's management and staff in the associate's activities and the financing of a portion of the associate's operations. As at December 31, 2012, $458,000 (2011 – $nil) was included in long-term receivable relating to exploration and administrative expenditures incurred by the Company on behalf of Sabre.

(b) **ThunderBolt Resources Inc.**

In 2012, the Company paid C$418,000 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. 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. As of December 31, 2012, the Company subscribed for shares of ThunderBolt through the conversion of C$320,000 of the convertible promissory note. Additionally, the Company received shares of ThunderBolt in consideration for the waiver of the Company's option on certain properties transferred to ThunderBolt by a company controlled by the Chairman.

As at December 31, 2012, the Company owns approximately 18% 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 through the involvement of the Company's management and staff in the associate's activities and the financing of a portion of the associate's operations. As at December 31, 2012, $633,000 (2011 – $nil) was included in long-term receivable relating to exploration and administrative expenditures incurred by the Company on behalf of ThunderBolt.

(c) **Minerales OTU S.A.S.**

In 2011, the Company completed a transaction whereby exploration and evaluation assets were transferred to OTU, a Colombian company controlled by the Chairman of the Company, in exchange for an equity interest in OTU.

The properties transferred had a book value of $6,556,000 while the estimated fair value of the equity interest was determined as $2,456,000, resulting in a loss recorded on disposal of the exploration properties of $4,100,000.

Upon completion of the transaction, the Company owned 25% of OTU, with the remaining 75% owned by a company controlled by the Chairman of the Company and has accounted for its investment in OTU as an investment in associate.

On October 19, 2012, the Company completed an exchange of assets, including its investment in OTU and the settlement of a receivable for $75,000, with a company controlled by the Chairman resulting in no gain or loss to the Company. See Note 22(h) for further details.

13. CANADIAN DOLLAR-DENOMINATED WARRANTS

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

	2012		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), (c)	**–**	**–**	110,209	770
Issued (b)	**108,000**	**107**	252,000	686
Exercised	**(6,217,764)**	**(6,066)**	(7,223,949)	(50,885)
Expired	**(34,236)**	**(36)**	(7)	–
Fair value revaluation of liability	**–**	**(651)**	–	(33,999)
Balance, December 31	**–**	**–**	6,144,000	6,646
Current portion	**–**	**–**	6,144,000	6,646
Non-current portion	**–**	**–**	–	–

(a) During the year ended December 31, 2011, 110,209 warrants were issued as a result of the exercise of 220,417 broker warrants with an exercise price of C$2.25 and an expiry date of March 31, 2011.

The issue date fair value of the warrants issued during the year ended December 31, 2011 was estimated at $770,000.

As at December 31, 2011, all such warrants were exercised.

A derivative gain of $4,976,000 was recognized in the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2011 relating to the revaluation of the warrants outstanding or 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) During the year ended December 31, 2012, 108,000 warrants (2011 – 252,000 warrants), having an exercise price of C$7.50 and an expiry date of September 16, 2012, were issued as a result of the exercise of 216,000 broker warrants (2011 – 504,000 broker warrants) with the same terms and conditions as the original pool of warrants and are included with the original pool of warrants for revaluation purposes.

The issue date fair value of the warrants issued during the year ended December 31, 2012 was estimated at $107,000 (2011 – $686,000).

As of the September 16, 2012 expiry date, all such warrants were exercised or expired. The fair value of the outstanding warrants on December 31, 2011 was $6,646,000.

A derivative gain of $651,000 (2011 – $33,999,000) was recognized in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2012 relating to the revaluation of the warrants upon exercise or expiry. 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 year ended December 31, 2012, all fair values were determined based on quoted market prices.

For the year ended December 31, 2011, the following is the range of assumptions used to value warrants issued where fair values were determined using the Black-Scholes option pricing model:

	2011
Expected dividend yield	nil
Expected volatility	100%
Risk-free interest rate	1.06% to 1.9%
Period to expiry on date of exercise or revaluation	0.01 to 0.58 years

14. EQUITY TAX LIABILITY

On December 29, 2010, the Colombian Congress passed a law which imposes a 6% equity tax levied on Colombian operations. The Company's equity tax payable for the years 2011 to 2014 is a total of $1,115,000, payable in eight equal semi-annual instalments.

The amount of equity tax payable is fixed for the four-year term ending in 2014 and is payable regardless of whether subsequent changes to the Company's financial position would result in a reduction or elimination of the equity tax amount during the four-year term. As a result, the Company expensed the entire amount in consolidated statement of operations and comprehensive income (loss) for the year ending December 31, 2011 with the initial corresponding liability recognized on the consolidated statement of financial position as equity tax payable. The equity tax payable at December 31, 2012 is calculated by discounting the future equity tax payments by a discount rate of 5.27% (2011 – 4.98%).

(in 000's of U.S. Dollars)	**2012**	2011
	$	$
Balance, January 1	**824**	–
Equity tax expense	**–**	1,115
Payments	**(316)**	(300)
Accretion	**33**	24
Foreign exchange	**72**	(15)
Balance, December 31	**613**	824
Current, included in accounts payable and accrued liabilities	**320**	293
Non-current	**293**	531
Balance, December 31	**613**	824

15. REHABILITATION PROVISION

The Company's rehabilitation provision is based on management's best estimate of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

(in 000's of U.S. dollars)	**2012**	2011
	$	$
Balance, January 1	**509**	215
Change in provision	**(139)**	275
Accretion expense	**3**	19
Balance, December 31	**373**	509

The Company has estimated its total rehabilitation provision at December 31, 2012 based on an undiscounted future liability of approximately $388,000 (2011 – $577,000), a risk-free rate of 4.5% (2011 – 4.75%) and an inflation rate of 2.77% (2011 – 3.96%). Reclamation is expected to occur during the years 2014 to 2016.

16. 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 4.

Financial assets and financial liabilities as at December 31, 2012 and December 31, 2011 were as follows:

As at December 31, 2012 (in 000's 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	**–**	**169,983**	**–**	**169,983**
Marketable securities	**1,284**	**–**	**–**	**1,284**
Restricted cash	**66**	**–**	**–**	**66**
Receivables	**–**	**7,578**	**–**	**7,578**
Accounts payable and accrued liabilities	**–**	**–**	**(2,613)**	**(2,613)**
Equity tax liability	**–**	**–**	**(293)**	**(293)**
Total	**1,350**	**177,561**	**(2,906)**	**176,005**

As at December 31, 2011 (in 000's 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	–	83,404	–	83,404
Marketable securities	486	–	–	486
Restricted cash	89	–	–	89
Receivables	–	1,031	–	1,031
Accounts payable and accrued liabilities	–	–	(2,947)	(2,947)
Equity tax liability	–	–	(531)	(531)
Canadian dollar-denominated warrants	–	–	(6,646)	(6,646)
Total	575	84,435	(10,124)	74,886

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities and income taxes payable 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 counter party'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 consist of receivables from unrelated parties. Current and long-term amounts receivable as of December 31, 2012 were $6,487,000 and $1,091,000, respectively (2011 – $674,000 and nil, respectively). Management believes that the credit risk concentration with respect to amounts receivable is minimal based on the Company's history with these unrelated parties. The credit risk in respect of the long-term amounts receivable is dependent on each of Sabre and ThunderBolt's ability to complete future financings.

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 December 31, 2012, the Company had cash and cash equivalents of $169,983,000 (2011 - $83,404,000) to settle current liabilities of $2,613,000 (2011 - $2,947,000, excluding the current portion of Canadian dollar-denominated warrants). The majority of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has various commitments detailed in Note 26.

For the year ended December 31, 2012, the Company recorded a net loss of $7,929,000 (2011 – income of $18,204,000), after recognizing a gain in respect of the Canadian dollar-denominated warrants of $651,000 (2011 – $33,999,000), and reported an accumulated deficit of $116,060,000 (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 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, private placements and the exercise of outstanding warrants and options.

Market risk

Interest rate risk

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

Foreign currency risk

Foreign currency risk arises from future commercial transactions and 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 December 31, 2012	**Foreign Currency**	**Foreign Balance $(000's)**	**$(000's)**
Cash and cash equivalents	**COP**	**620,574**	**351**
Cash and cash equivalents	**CAD**	**145,344**	**146,085**
Marketable securities	**CAD**	**1,277**	**1,284**
Receivables	**COP**	**10,981,008**	**6,214**
Receivables	**CAD**	**236**	**237**
Restricted cash	**CAD**	**66**	**66**
Accounts payable and accrued liabilities	**COP**	**2,512,873**	**1,422**
Accounts payable and accrued liabilities	**CAD**	**551**	**553**
Equity tax liability	**COP**	**1,083**	**613**

As at December 31, 2011	Foreign Currency	Foreign Balance $(000's)	$(000's)
Cash and cash equivalents	COP	2,091,870	1,085
Cash and cash equivalents	CAD	64,426	63,351
Marketable securities	CAD	494	486
Receivables	COP	968,403	502
Receivables	CAD	163	160
Restricted cash	COP	48,008	25
Restricted cash	CAD	65	64
Accounts payable and accrued liabilities	COP	2,206,879	1,144
Accounts payable and accrued liabilities	CAD	900	885
Equity tax liability	COP	1,589,570	824

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 December 31, 2012, 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 loss for the year ended December 31, 2012 would have been approximately $15,351,000 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 December 31, 2012, 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. 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)

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

As at December 31, 2012 (in 000's of U.S. dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Cash and cash equivalents	**–**	**169,983**	**–**	**169,983**
Marketable securities	**1,054**	**230**	**–**	**1,284**
	1,054	**170,213**	**–**	**171,267**

As at December 31, 2011 (in 000's of U.S. dollars)	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	–	83,404	–	83,404
Marketable securities	448	38	–	486
	448	83,442	–	83,890
Canadian dollar-denominated warrants	(6,646)	–	–	(6,646)
	(6,646)	–	–	(6,646)

17. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which is comprised of share capital, share premium reserve, warrants and broker warrants reserve, share-based payment reserve and deficit which at December 31, 2012 totalled $296,656,000 (2011 - $155,804,000). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on activities related to its mineral properties. Selected information is frequently provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2012. The Company is not subject to any capital requirements imposed by a regulator or lending institution.

18. INCOME TAXES

Income taxes are comprised of:

For the years ended (in 000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Current tax:		
Current tax on profits for the year	**429**	209
Adjustments in respect of prior years	**–**	107
	429	316
Deferred tax (recovery):		
Origination and reversal of temporary differences	**(509)**	(1,399)
	(509)	(1,399)
Income tax expense (recovery)	**(80)**	(1,083)

The Company is incorporated in Bermuda and it is not subject to income taxes in Bermuda, and as such the losses incurred as a result of corporate expenses in Bermuda will not result in an income tax recovery. The Company is tax resident in Canada and is subject to income taxes at a combined federal and provincial statutory tax rate as at December 31, 2012 of 26.5% (2011 – 26.5%). The tax on the Company's net income (loss) before tax differs from the amount that would arise using the tax rate applicable to the Company as follows:

For the years ended (in 000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Net income (loss) before taxes	**(8,009)**	17,121
Expected income tax expense (recovery)	**(2,122)**	4,537
Foreign tax rate differences	**416**	30
Non-deductible expenses	**1,178**	1,576
Non-taxable foreign exchange loss (gain)	**–**	317
Non-taxable (gain) loss on Canadian dollar-denominated warrants	**(173)**	(9,010)
Difference in future tax rates	**–**	146
Change in future tax rates	**(819)**	–
Foreign exchange impact on deferred tax liability	**(1,186)**	222
Adjustment in respect of prior years	**(334)**	–
Current year loss not recognized	**2,960**	1,099
Net income tax recovery	**(80)**	(1,083)

All deferred tax assets and liabilities are expected to be settled after 12 months. The deferred income tax liability arises from the temporary difference between the tax value and the carrying value of exploration and evaluation assets. The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:

For the year ended December 31, 2012 (in 000's of U.S. dollars)	**Property, plant and equipment**	**Exploration and evaluation assets**	**Investment in associate**	**Other**	**Net deferred income tax (asset) liability**
	$	**$**	**$**	**$**	**$**
Balance, January 1	**(908)**	**12,043**	**16**	**–**	**11,151**
Recognized in equity	**–**	**–**	**–**	**19**	**19**
Recognized in profit or loss	**604**	**(1,102)**	**(16)**	**5**	**(509)**
Balance, December 31	**(304)**	**10,941**	**–**	**24**	**10,661**

For the year ended December 31, 2011 (in 000's of U.S. dollars)	Property, plant and equipment	Exploration and evaluation assets	Investment in associate	Other	Net deferred income tax (asset) liability
	$	$	$	$	$
Balance, January 1	(452)	13,003	–	–	12,551
Recognized in profit or loss	(456)	(960)	16	–	(1,400)
Balance, December 31	(908)	12,043	16	–	11,151

As at the periods ended, the Company had not recognized the following deferred tax assets that are available for utilization against taxable income:

As at (in 000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Exploration and evaluation assets	**(2,402)**	5,373
Property, plant and equipment	**(291)**	16
Financing fees	**1,855**	1,122
Receivables	**–**	6
Unrealized loss (gain) on marketable securities	**(22)**	39
Tax losses carried forward utilizable against taxable income	**13,239**	7,090
	12,379	13,646

As at December 31, 2012, the Company had unused tax losses available for carry forward in Canada of $49,959,000 (2011 - $28,419,000) that expire between the years 2030 and 2032.

19. 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 December 31, 2012, the issued share capital was 126,191,155. The change in issued share capital for the 2012 and 2011 years were as follows:

	Number of Shares	
	2012	2011
Balance, January 1	**108,145,007**	98,548,890
Issue of shares – asset purchase (Note 22(l))	**–**	495,106
Issue of shares (i)	**9,039,000**	–
Exercise of stock options (Note 21)	**683,086**	1,041,412
Exercise of warrants (Note 13, Note 20(a))	**8,108,062**	7,335,182
Exercise of broker warrants (Note 20(b))	**216,000**	724,417
Balance, December 31	**126,191,155**	108,145,007

(i) On December 4, 2012, the Company completed an equity financing resulting in the issuance of 9,039,000 common shares at a price of C$9.55 per share for gross proceeds of C$86,322,000.

Share issue costs totaled $4,909,000, including a cash commission to the underwriters of 5% of gross proceeds of C$4,316,000. The share issue costs are recognized as a reduction to equity.

20. WARRANTS AND BROKER WARRANTS RESERVE

(a) **Warrants**

	2012		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, December 31	**–**	**–**	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. All such warrants were exercised or expired as of the expiry date of March 30, 2012.

(b) Broker warrants

	2012		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	**(216,000)**	**(790)**	(724,417)	(1,968)
Balance, December 31	**–**	**–**	216,000	790

The broker warrants expired on September 16, 2012 and had an exercise price of C$5.70 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each underlying share purchase warrant expired on September 16, 2012 and had an exercise price of C$7.50 per common share.

Warrants issued upon exercise of broker warrants were fair-valued based on quoted market prices for the warrants and classified as Canadian dollar-denominated warrants (Note 13).

As at September 16, 2012, all broker warrants were exercised.

No broker warrants were issued in 2012 and 2011.

21. 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 reserved for issuance granted to any one individual in a 12-month period may not exceed 5% of the total number of shares outstanding. Options granted under the Plan will be for a term not to exceed 10 years.

Movements in share options during the period were as follows:

	2012		2011	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
		C$		C$
Balance, January 1	**6,868,285**	**4.10**	5,667,197	2.02
Granted [*](a)	**2,878,788**	**7.76**	2,387,500	8.33
Exercised	**(683,086)**	**2.98**	(1,041,412)	1.93
Expired/Forfeited	**(451,875)**	**8.52**	(145,000)	8.09
Balance, December 31	**8,612,112**	**5.18**	6,868,285	4.10

[*] The weighted average grant date fair value of stock option grants during the periods ended December 31, 2012 and December 31, 2011 was $3.13 and $5.20, respectively.

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

	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	3,096,549	2.92	1.37	3,096,549	2.92	1.37
$2.01 – $4.00	553,000	2.35	2.35	553,000	2.35	2.35
$4.01 - $6.00	125,000	2.67	5.80	125,000	2.67	5.80
$6.01 - $8.00	4,095,063	3.83	7.67	2,252,847	3.57	7.64
$8.01 – $10.24	742,500	3.56	9.33	605,000	3.36	9.47
	8,612,112	3.37	5.18	6,632,396	3.13	4.40

(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 years ended	**December 31, 2012**	December 31, 2011
Number of options granted	**2,878,788**	2,387,500
Weighted average exercise price (C$)	**7.49**	8.33
Weighted average market price ($)	**7.76**	8.49
Expected dividend yield	**nil**	nil
Expected volatility	**58%**	100%
Weighted average risk-free interest rate	**1.16%**	1.82%
Forfeiture rate	**6.86%**	5.02%
Weighted expected life (years)	**3.12**	2.88
Weighted average grant date fair value ($)	**3.13**	5.20

The options granted in 2012 have vesting terms of 1/4 every six months from the date of grant. The options granted in 2011 have vesting terms of 1/4 immediately and 1/4 every six months from the date of grant. All options granted in 2012 and 2011 have a five-year term from the date of grant

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

For the years ended (in 000's U.S. Dollars)	Note	**December 31, 2012**	December 31, 2011
		$	$
Share-based payments, included in corporate administration expenses	23	**4,406**	5,913
Share-based payments capitalized to exploration and evaluation assets		**4,095**	4,265
		8,501	10,178

22. 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 year ended December 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 $5,169,000 (2011 - $6,017,000) and are reported as a reduction to exploration and evaluation assets on the consolidated statement of financial position. As at December 31, 2012, the refinery company owed the Company $203,000 (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 the Chairman for $20,000 per month. Services include site visit security and logistics, technical assistance and assistance with Colombia mining law and processes. As at December 31, 2012, $nil (2011 – $25,000) of fees was included in accounts payable.

(c) During 2012, option payments of $63,000 (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, pursuant to the option agreement.

(d) As at December 31, 2012, $633,000 (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.

(e) As at December 31, 2012, $458,000 (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.

(f) During the year ended December 31, 2012, $502,000 (2011 – $nil) was paid by Sabre to a company controlled by the Chairman for the repayment of canon payments.

(g) During the year ended December 31, 2012, $418,000 (2011 – $nil) was paid by ThunderBolt to a company controlled by the Chairman for the repayment of canon payments.

(h) On October 19, 2012, the Company transferred to a company controlled by the Chairman of the Company certain mining concessions within the Buriticá property and its 25% equity interest in OTU in exchange for additional mining concessions that have now been included in the Company's Buriticá portfolio.

The fair value of the assets exchanged were determined to be equal to the Company's book value for the assets transferred, resulting in no gain or loss recognized by the Company upon completion of the transaction.

(i) On September 7, 2012, an option agreement, dated January 16, 2008, with a company controlled by the Chairman (the "Optionor") expired. The option agreement provided the Company with the option to acquire certain mineral rights from the Optionor.

(j) On October 27, 2011, the Company transferred certain exploration and evaluation assets having a total book value of $6,556,000 to a Colombian company controlled by the Chairman (OTU), in exchange for a 25 percent equity interest in OTU, representing the approximate proportion of hectares transferred by the Company (Note 12(c)). The estimated fair value of the equity interest received was determined as $2,456,000, resulting in a loss recorded on disposal of the exploration properties of $4,100,000.

(k) During October 2011, the Company acquired, for a nominal amount, additional licenses for properties adjacent to the Buriticá project from a company controlled by the Chairman and reimbursed the company $0.1 million for canon payments.

(l) On May 5, 2011, the Company acquired from the Chairman (i) title to mineral concession contracts and rights to mineral applications adjacent to the Buriticá project and (ii) title to concession contracts adjacent to the Dominical project for total consideration of $6,229,000, including $2,000,000 in cash and 495,106 common shares of the Company, valued at $4,229,000.

(m) Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel were as follows:

For the years ended (in 000's of U.S. dollars)	**December 31, 2012**	December 31, 2011
	$	$
Management salaries, benefits and bonuses	**1,699**	1,243
Director fees	**369**	347
Consulting fees	**253**	–
Share-based payments	**4,492**	5,324
	6,813	6,914

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Total management salaries, benefits, bonuses and share-based payments of $1,072,000 (2011 - $833,000) that were included above were capitalized to exploration and evaluation assets.

23. CORPORATE ADMINISTRATION EXPENSES

For the years ended (in 000's U.S. Dollars)	Note	**December 31, 2012**	December 31, 2011
		$	$
Share-based payments	21(b)	**4,406**	**5,913**
Salaries		**2,255**	**1,614**
Professional fees		**760**	**771**
Investor relations		**639**	**433**
General office and administration expense		**596**	**986**
Directors fees and expenses		**555**	**347**
Depreciation and amortization	10	**410**	**396**
Travel expenses		**321**	**373**
Regulatory fees		**251**	**165**
Capital and equity tax		**(32)**	**1,145**
		10,161	**12,143**

24. EARNINGS PER SHARE

(a) **Basic**

Basic earnings per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year:

For the years ended	**December 31, 2012**	December 31, 2011
Net income (loss) attributable to equity holders of the Company (in 000's U.S. Dollars)	**$ (7,929)**	$ 18,204
Weighted average number of common shares outstanding (in 000's)	**112,442**	105,984
Basic earnings per share	**$ (0.07)**	$ 0.17

(b) **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of common shares to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options.

For the years ended	December 31, 2012	December 31, 2011
Net income (loss) attributable to equity holders of the Company (in 000's U.S. Dollars)	$ (7,929)	$ 18,204
Weighted average number of common shares outstanding (in 000's)	112,442	105,984
Adjustments for (in 000's):		
Warrants	–	3,698
Stock options	–	3,913
Weighted average number of common shares for diluted earnings per share (in 000's)	112,442	113,595
Diluted earnings per share	$ (0.07)	$ 0.16

25. CASH FLOW – OTHER ITEMS

(a) Other Operating Activities

For the years ended (in 000's U.S. Dollars)	Note	December 31, 2012	December 31, 2011
		$	$
Other non-cash items:			
Depreciation and amortization		410	396
Interest and accretion expense		36	43
Interest income		(15)	(385)
		431	54
Net changes in non-cash operating working capital balances:			
Receivables and prepaid expenses		(206)	382
Accounts payable and accrued liabilities		(921)	(114)
Equity tax liability	14	(316)	(300)
		(1,443)	(32)

(b) Other Investing Activities

For the years ended (in 000's U.S. Dollars)	Note	December 31, 2012	December 31, 2011
		$	$
Marketable securities	7(b)	(560)	(64)
Restricted cash		23	216
Prepaids and advances		(1,583)	110
Receivables attributable to exploration and evaluation assets		(3,256)	(111)
Intangible assets		(255)	(206)
Accounts payable and accrued liabilities attributable to exploration and evaluation assets		638	(985)
Proceeds from sale of assets		102	100
		(4,891)	(940)

(c) Supplemental information regarding non-cash transactions

During the 2012 and 2011 financial periods, the Company entered into the following non-cash investing and financing activities, which are not reflected in the consolidated statement of cash flows:

- On October 2012, the Company transferred certain mining concessions and its equity interest in an associate in exchange for additional mining concessions. No gain or loss recognized by the Company upon completion of the transaction.

- In October 2011, the Company disposed of exploration and evaluation assets with an aggregate book value of $6,556,000 in exchange for an equity investment in an associate valued at $2,526,000, resulting in a loss on disposal of $4,100,000 (Note 22(j)).

26. COMMITMENTS AND CONTINGENCIES

Commitments
As at December 31, 2012, the Company had the following contractual commitments and obligations:

(in 000's of U.S. dollars)	Total	Less than 1 Year	Years 2 - 5	After 5 Years
	$	$	$	$
Operating leases (a)	472	177	295	–
Capital commitments(b)	9,319	7,927	1,392	–
	9,791	8,104	1,687	–

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

(b) Capital commitments mainly relate to the construction of the exploration tunnels.

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.

27. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentation.