INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2016

CONTINENTALGOLD
TSX:CNL OTCQX:CGOOF

INDEX

Continental Gold Inc.
Consolidated Statements of Financial Position (unaudited)

As at (in thousands of U.S. Dollars)	Notes	**September 30, 2016**	December 31, 2015
		$	$
Assets			
Current assets			
Cash and cash equivalents		**28,529**	28,053
Marketable securities	6	**2,825**	555
Receivables and prepaid expenses	7	**3,322**	1,887
		34,676	30,495
Non-current assets			
Prepaids and advances		**820**	601
Intangible assets		**207**	260
Property, plant and equipment	8	**11,121**	11,102
Exploration and evaluation assets	9	**230,788**	217,316
		242,936	229,279
		277,612	259,774
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**5,278**	6,179
Non-current liabilities			
Rehabilitation provision		**5,286**	6,283
Deferred tax liability		**22,286**	27,179
Warrant liability	11	**3,288**	–
		30,860	33,462
		36,138	39,641
Equity			
Share capital	12	**419,300**	398,419
Contributed surplus		**722**	359
Share-based payment reserve		**31,535**	30,363
Deficit		**(210,083)**	(209,008)
		241,474	220,133
		277,612	259,774

Commitments and contingencies 16

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

Continental Gold Inc.
Consolidated Statements of Operations and Comprehensive Loss (unaudited)

(in thousands of U.S. Dollars, except share and per share amounts)	Notes	Three months ended September 30		Nine months ended September 30	
		2016	2015	**2016**	2015
		$	$	**$**	$
Operating expenses:					
Corporate administration	14	**(1,835)**	(1,519)	**(5,973)**	(6,397)
Exploration expense		**(17)**	(6)	**(55)**	(25)
Gain on sale or write-down of assets		**–**	(2)	**14**	(2)
		(1,852)	(1,527)	**(6,014)**	(6,424)
Other income (expense):					
Foreign exchange gain (loss)		**(214)**	(1,368)	**469**	(4,720)
Gain (loss) on marketable securities		**(355)**	(388)	**2,270**	(255)
Loss on derivative financial instruments	10, 11	**(718)**	–	**(2,412)**	–
Other income (expense)		**(74)**	78	**(63)**	95
Net loss before finance items and income tax		**(3,213)**	(3,205)	**(5,750)**	(11,304)
Finance income (expense):					
Interest income		**49**	48	**138**	216
Interest and accretion expense		**(90)**	(4)	**(258)**	(84)
Net loss before income tax		**(3,254)**	(3,161)	**(5,870)**	(11,172)
Income tax recovery (expense):					
Current		**(48)**	(32)	**(98)**	(86)
Deferred		**1,466**	(7,005)	**4,893**	(9,175)
Total income tax recovery (expense)		**1,418**	(7,037)	**4,795**	(9,261)
Net loss and comprehensive loss for the period attributable to the equity holders of the Continental Gold Inc.		**(1,836)**	(10,198)	**(1,075)**	(20,433)
Net loss per common share					
Basic and diluted		**(0.01)**	(0.08)	**(0.01)**	(0.16)
Weighted average number of common shares outstanding					
Basic		**141,538,421**	129,532,237	**135,244,076**	128,652,645
Diluted		**143,187,357**	129,710,244	**135,867,586**	129,242,235

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

Continental Gold Inc.
Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(in thousands of U.S. Dollars)	Issued Capital (Note 1, 12) Share Capital (Note 12)	Issued Capital (Note 1, 12) Contributed Surplus	Issued Capital (Note 1, 12) Share Premium Reserve	Share-Based Payment Reserve	Deficit	Total
	$	$	$	$	$	$
Balance, December 31, 2015	**398,419**	**359**	**–**	**30,363**	**(209,008)**	**220,133**
Issue of shares (Note 12)	**21,962**	**–**	**–**	**–**	**–**	**21,962**
Fair value of warrants issued (Note 11)	**(659)**	**–**	**–**	**–**	**–**	**(659)**
Cost of issue (Note 12)	**(1,422)**	**–**	**–**	**–**	**–**	**(1,422)**
Share-based payments (Note 13(b))	**240**	**–**	**–**	**1,535**	**–**	**1,775**
Exercise of share-based payments – cash proceeds	**760**	**–**	**–**	**–**	**–**	**760**
Fair value of share-based payments exercised	**–**	**363**		**(363)**	**–**	**–**
Net loss for the period	**–**	**–**	**–**	**–**	**(1,075)**	**(1,075)**
Balance, September 30, 2016	**419,300**	**722**	**–**	**31,535**	**(210,083)**	**241,474**
Balance, December 31, 2014	24	–	393,325	30,655	(181,032)	242,972
Share-based payments (Note 13(b))	–	–	–	1,711	–	1,711
Exercise of share-based payments – cash proceeds	470	–	2,526	–	–	2,996
Fair value of share-based payments exercised	–	359	2,074	(2,433)	–	–
Restructuring of capital – scheme of arrangement (Note 1)	397,925	–	(397,925)	–	–	–
Net loss for the period	–	–	–	–	(20,433)	(20,433)
Balance, September 30, 2015	398,419	359	–	29,933	(201,465)	227,246

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

Continental Gold Inc.

Consolidated Statements of Cash Flows (unaudited)

		Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. Dollars)	Notes	**2016**	2015	**2016**	2015
		$	$	**$**	$
Cash provided by (used in):					
Operating activities:					
Net loss for the period		**(1,836)**	(10,198)	**(1,075)**	(20,433)
Items not affecting cash:					
Foreign exchange (gain) loss		**214**	1,368	**(469)**	4,720
(Gain) loss on marketable securities		**355**	388	**(2,270)**	255
Loss on derivative financial instruments	10, 11	**718**	–	**2,412**	–
Share-based payments	13(b)	**222**	388	**1,195**	1,182
Deferred tax (recovery) expense		**(1,466)**	7,005	**(4,893)**	9,175
Other non-cash items	15(a)	**172**	194	**459**	390
Changes in non-cash operating working capital balances	15(a)	**862**	(920)	**59**	(153)
		(759)	(1,775)	**(4,582)**	(4,864)
Investing activities:					
Exploration and evaluation assets	15(b)	**(7,897)**	(6,935)	**(22,405)**	(22,997)
Recoveries in property from gold sales		**2,226**	–	**7,920**	3,384
Receivables related to mineral properties		**(144)**	89	**(1,081)**	2,433
Property, plant and equipment		**(110)**	(333)	**(925)**	(671)
Other investing activities	15(b)	**(265)**	30	**(252)**	(117)
		(6,190)	(7,149)	**(16,743)**	(17,968)
Financing activities:					
Cash proceeds from exercise of stock options		**760**	470	**760**	2,996
Cash proceeds from bought deal financing, net of issue costs	12	**–**	–	**20,540**	–
Cash proceeds from settlement of derivatives	10	**35**	–	**82**	–
		795	470	**21,382**	2,996
Net change in cash and cash equivalents during the period		**(6,154)**	(8,454)	**57**	(19,836)
Cash and cash equivalents, beginning of period		**34,985**	43,121	**28,053**	57,558
Foreign exchange effect on cash balances		**(302)**	(1,414)	**419**	(4,469)
Cash and cash equivalents, end of period		**28,529**	33,253	**28,529**	33,253

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

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

1. NATURE OF OPERATIONS

Continental Gold Inc. (the "Company) was incorporated under the Business Corporations Act (Ontario) on April 27, 2015 and is the public holding company of the wholly-owned subsidiary Continental Gold Limited ("Old Continental"), a Bermuda company incorporated under the Companies Act, 1981 (Bermuda) (the "Bermuda Act"). On June 10, 2015, the Company completed an internal corporate reorganization by way of a scheme of arrangement such that the shareholders of Old Continental ultimately continued to hold their respective interests in the Company through a one-for-one share exchange. As the reorganization occurred between two related parties, there was no change in control. Accordingly, the consolidated financial statements have been prepared on a continuity-of-interest basis. All references to the Company relating to periods prior to the Effective Date of the Scheme (as defined herein) relate to those of Old Continental.

The Company principally carries on business through a corporate office in Toronto and a foreign company branch office in Medellín, 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 is 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 155 Wellington Street West, Suite 2920, Toronto, Ontario Canada M5V 3H1.

2. STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and effective for the three and the nine months ended September 30, 2016, as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of unaudited interim consolidated financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"). These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

The accounting policies and the significant judgements, estimates and assumptions used in the application of the accounting policies used in the preparation of these unaudited interim consolidated financial statements are those applied in Notes 2, 3, 5 and 6 of the Company's audited annual consolidated financial statements for the year ended December 31, 2015, and have been consistently applied throughout all periods presented as if these policies had always been in effect, except as described in Note 3 herein.

These unaudited interim consolidated financial statements were approved and authorized by the Audit Committee on November 11, 2016.

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

(a) New Accounting Standards and Interpretations

The following revised standards and amendments, unless otherwise stated, are effective on or after January 1, 2017, with early adoption permitted, and have not been applied in preparing these unaudited interim consolidated financial statements. Management has not yet considered the potential impact of their adoption and does not plan to adopt these standards early.

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

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

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

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(iii) IFRS 16, *Leases* (‘IFRS 16”) replaces IAS 17, *Leases*. The new model requires the recognition of almost all lease contracts on a lessee’s statement of financial position as a lease liability reflecting future lease payments and a ‘right-of-use asset’ with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

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

4. SUBSIDIARIES

The following is a list of subsidiaries of the Company at September 30, 2016:

Name	Country of incorporation	Nature of business	Proportion of shares held directly by Company (%)	Proportion of shares held by consolidated group (%)
Continental Gold Limited	Bermuda	Exploration and development	100	–
CGL International Holdings Limited	Bermuda	Intermediate holding company	100	–
CGL Berlin Holdings Limited	Bermuda	Intermediate holding company	–	100
CGL Dominical Holdings Limited	Bermuda	Intermediate holding company	–	100
CGL Management Services Limited	Bermuda	Intermediate holding company	–	100
CGL Greater Buritica Holdings Limited	Bermuda	Intermediate holding company	–	100
CGL Dojura Holdings Limited	Bermuda	Intermediate holding company	–	100
CGL Berlin S.A.S.	Colombia	Exploration	–	100
CGL Dominical S.A.S.	Colombia	Exploration	–	100
CGL Santander S.A.S.	Colombia	Exploration	–	100
CGL Gran Buritica S.A.S.	Colombia	Exploration	–	100
CGL Dojura S.A.S.	Colombia	Exploration	–	100

The Company finances the operations of all of its subsidiaries and, thus, these companies will have unsecured borrowings from the Company that are interest-free and on demand. The ability for these controlled entities to repay debts due to the Company (and other parties) will be dependent on the commercialization of the exploration and evaluation assets owned by the subsidiaries.

5. OPERATING SEGMENTS

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

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

Supplemental information

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

As at September 30, 2016 (in thousands of U.S. dollars)	**Corporate**	**Colombia**	**Total**
	$	**$**	**$**
Cash and cash equivalents	**26,444**	**2,085**	**28,529**
Exploration and evaluation assets	**–**	**230,788**	**230,788**
Total assets	**29,770**	**247,842**	**277,612**
Total liabilities	**4,072**	**32,066**	**36,138**

Period ended September 30, 2016 (in thousands of U.S. dollars)	**Corporate**	**Colombia**	**Total**
	$	**$**	**$**
Three months ended:			
Net income (loss)	**(2,962)**	**1,126**	**(1,836)**
Capital expenditures	**–**	**5,320**	**5,320**
Nine months ended:			
Net income (loss)	**(4,082)**	**3,007**	**(1,075)**
Capital expenditures	**46**	**13,854**	**13,900**

As at December 31, 2015 (in thousands of U.S. dollars)	Corporate	Colombia	Total
	$	$	$
Cash and cash equivalents	21,986	6,067	28,053
Exploration and evaluation assets	–	217,316	217,316
Total assets	23,028	236,746	259,774
Total liabilities	868	38,773	39,641

Period ended September 30, 2015 (in thousands of U.S. dollars)	Corporate	Colombia	Total
	$	$	$
Three months ended:			
Net loss	(3,031)	(7,167)	(10,198)
Capital expenditures	20	7,236	7,256
Nine months ended:			
Net loss	(9,134)	(11,299)	(20,433)
Capital expenditures	26	19,481	19,507

6. MARKETABLE SECURITIES

Marketable securities consisted of the following:

As at	**September 30, 2016**		December 31, 2015	
(in thousands of U.S. Dollars)	**Cost**	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Equity securities (a)	**4,283**	**2,776**	4,283	545
Warrant securities (b)	**279**	**49**	440	10
	4,562	**2,825**	4,723	555

(a) **Equity securities**

Equity securities are classified as FVTPL and are recorded at fair value using the bid price as at September 30, 2016 and are therefore classified as level 1 within the fair value hierarchy.

(b) **Warrant securities**

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

7. RECEIVABLES AND PREPAID EXPENSES

As at (in thousands of U.S. dollars)	September 30, 2016	December 31, 2015
	$	$
Accounts receivable (a)	3,181	1,804
Prepaid expenses	141	83
	3,322	1,887

(a) **Accounts receivable**

Accounts receivable as at September 30, 2016 includes a total of $3,075,000 (December 31, 2015 - $1,709,000) of refundable sales taxes made up of $3,035,000 (December 31, 2015 - $1,672,000) of Colombia value-added-tax refund receivable and $40,000 (December 31, 2015 - $37,000) of Canadian harmonized sales tax refund receivable.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(in thousands of U.S. dollars)	Land and Buildings	Vehicles, Mining and Exploration Equipment	Leasehold Improvements, Office and Computer Equipment	Total
	$	$	$	$
Opening net book value, January 1, 2016	5,237	4,606	1,259	11,102
Additions	471	223	231	925
Disposals and write-downs	(7)	(2)	–	(9)
Depreciation	(140)	(463)	(294)	(897)
Closing net book value September 30, 2016	5,561	4,364	1,196	11,121
Balance, September 30, 2016				
Cost	6,006	7,160	3,711	16,877
Accumulated depreciation	(445)	(2,796)	(2,515)	(5,756)
Net book value	5,561	4,364	1,196	11,121
Year ended December 31, 2015				
Opening net book value, January 1, 2015	4,942	2,854	1,479	9,275
Additions	467	2,181	264	2,912
Disposals	–	(19)	(3)	(22)
Depreciation	(172)	(410)	(481)	(1,063)
Closing net book value, December 31, 2015	5,237	4,606	1,259	11,102
Balance, December 31, 2015				
Cost	5,542	6,980	3,480	16,002
Accumulated depreciation	(305)	(2,374)	(2,221)	(4,900)
Net book value	5,237	4,606	1,259	11,102

Depreciation for the three and nine months ended September 30, 2016 of $55,000 and $205,000, respectively (three and nine months ended September 30, 2015 – $91,000 and $276,000, respectively), is included in depreciation and amortization in the unaudited interim consolidated statement of operations and comprehensive loss) depreciation for the three and nine months ended September 30, 2016 of $236,000 and $692,000, respectively (three and nine months ended September 30, 2015 – $275,000 and $508,000, respectively), is capitalized in exploration and evaluation assets.

9. EXPLORATION AND EVALUATION ASSETS

(in thousands of U.S. dollars)	Balance December 31, 2015	Additions	Gold Sales and Recoveries	Disposals or Write-downs	Balance September 30, 2016
	$	$	$	$	$
Buriticá (a)	217,316	21,392	(7,920)	–	230,788
Total	217,316	21,392	(7,920)	–	230,788

(in thousands of U.S. dollars)	Balance December 31, 2014	Additions	Gold Sales and Recoveries	Disposals or Write-downs	Balance December 31, 2015
	$	$	$	$	$
Buriticá (a)	195,309	34,215	(6,847)	(5,361)	217,316
Total	195,309	34,215	(6,847)	(5,361)	217,316

(a) **Buriticá Project**

The Buriticá project includes the Yaraguá mine, which is under small-scale production by the Company. Production from the mine is from the processing of materials derived from underground development and exploration activities and is considered pre-production activity. Costs relating to the operation of the mine are capitalized and any related gold sales are credited against the capitalized expenditures.

Inventory is recorded at cost and is included within exploration and evaluation assets as the Company capitalizes its pre-production revenues and costs. During the three and nine months ended September 30, 2016 and 2015, no amounts have been expensed in the unaudited interim consolidated statement of operations and comprehensive loss.

The following represents inventory included in mineral properties:

As at (in thousands of U.S. dollars)	September 30, 2016	December 31, 2015
	$	$
Gold doré (i)	483	3,403
Advances received (i)	–	(2,845)
	483	558
Stockpile	307	265
Supplies	1,134	795
	1,925	1,618

(i) As at September 30, 2016, the Company held 437 ounces of gold doré inventory (December 31, 2015 – 3,409 ounces), of which nil ounces was committed for delivery (December 31, 2015 – 2,785 ounces committed for delivery in January 2016) and for which advance payments have been received. The 437 ounces of gold doré inventory (December 31, 2015 – remaining 564 ounces) has a realizable value of $578,000 based on a closing gold price of $1,323 per ounce (December 31, 2015 - $598,000 based on a closing gold price of $1,060 per ounce).

The following is a summary of gold sales credited against capitalized expenditures:

	Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. Dollars)	2016	2015	2016	2015
	$	$	$	$
Gold sales	3,248	–	10,765	3,384
Advances received in prior periods	(1,022)	–	(2,845)	–
	2,226	–	7,920	3,384

During the fourth quarter of 2015, exploration and evaluation work on a license within the Buriticá Project resulted in the determination that the exploration potential for the property covered under the license was low, resulting in a decision by the Company to allow the license to expire in early 2016. Accordingly, the Company wrote off the book value of the license of $5,361,000 for the year ended December 31, 2015 in the annual consolidated statement of operations and comprehensive loss.

10. FINANCIAL INSTRUMENTS

(a) Derivative Instruments

The Company uses foreign currency derivatives as part of its risk management program to mitigate the variability associated with the changing foreign currency rates relative to the U.S dollar. The derivative instruments are not formally recognized as hedging instruments and are accordingly classified as financial instruments. The mark-to-market fair values of all contracts are provided by a third party using inputs that are observable and determined using standard valuation techniques. Derivative instruments are classified within Level 2 of the fair value hierarchy.

As at September 30, 2016, the Company held no COP non-deliverable forward foreign currency contracts (December 31, 2015 - $2,250,000 of at an average US$:COP rate of 1:3,098 with value dates between July 2016 and September 2016). The non-deliverable forward foreign currency contracts are documented in the form of an ISDA master agreement containing the requirement for a payment of margin calls on loss positions of CAD$600,000 on total outstanding contracts.

As at December 31, 2015 (in thousands of U.S. Dollars)	Foreign Currency	**Balance Sheet Classification**	**Fair value of derivative instruments**
Non-deliverable foreign currency forwards	COP	Derivative liability (included within accounts payable and accrued liabilities)	135

For the three and nine months ended September 30, 2016, the Company recognized realized gains of $35,000 and $82,000, respectively, for the settlement of the contracts, resulting in a loss of $12,000 and a gain of $217,000, respectively, included in the consolidated statements of operations and comprehensive loss.

(b) Financial Instruments Disclosures

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 6 of the Company's audited annual consolidated financial statements for the year ended December 31, 2015.

Financial assets and financial liabilities as at September 30, 2016 and December 31, 2015 were as follows:

As at September 30, 2016 (in thousands of U.S. Dollars)	**Fair Value through profit and loss**	**Loans and receivables and held-to-maturity**	**Other financial assets (liabilities)**	**Total**
	$	**$**	**$**	**$**
Cash and cash equivalents	**–**	**28,529**	**–**	**28,529**
Marketable securities	**2,825**	**–**	**–**	**2,825**
Receivables	**–**	**107**	**–**	**107**
Accounts payable and accrued liabilities	**–**	**–**	**(4,301)**	**(4,301)**
Warrant liability	**(3,288)**	**–**	**–**	**(3,288)**
Total	**(463)**	**28,636**	**(4,301)**	**23,872**

December 31, 2015 (in thousands of U.S. Dollars)	Fair Value through profit and loss	Loans and receivables and held-to-maturity	Other financial assets (liabilities)	Total
	$	$	$	$
Cash and cash equivalents	–	28,053	–	28,053
Marketable securities	555	–	–	555
Receivables	–	95	–	95
Accounts payable and accrued liabilities	–	–	(6,044)	(6,044)
Derivative liability	(135)	–	–	(135)
Total	420	28,148	(6,044)	22,524

The carrying value of cash and cash equivalents, receivables and accounts payable and accrued liabilities 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:

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

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

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

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

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

As at September 30, 2016 (in thousands of U.S. dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Marketable securities	**2,776**	**49**	**–**	**2,825**
Warrant liability	**(3,288)**	**–**	**–**	**(3,288)**

As at December 31, 2015 (in thousands of U.S. dollars)	Level 1	Level 2	Level 3	Total
	$	$	$	$
Marketable securities	545	10	–	555
Derivative liability	–	(135)	–	(135)

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 September 30, 2016, the Company had cash and cash equivalents of $28,529,000 (December 31, 2015 – $28,053,000) to settle current liabilities of $5,278,000 (December 31, 2015 – $6,179,000). The majority of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has various commitments detailed in Note 16.

For the three and nine months ended September 30, 2016, the Company recorded a net loss of $1,075,000 and $1,836,000, respectively (three and nine months ended September 30, 2015 – $10,198,000 and $20,433, respectively) and reported an accumulated deficit on September 30, 2016 of $210,083,000 (December 31, 2015 – $209,008,000).

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, to reach profitable levels of operation and to effectively preserve and deploy cash. It is not possible to predict whether financing efforts will be successful or sufficient, or if the Company will attain profitable levels of operation.

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

11. WARRANT LIABILITY

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

	Number of Warrants	**Fair Value**
		$
Balance, January 1, 2016	**–**	**–**
Issued (a)	**5,750,000**	**659**
Fair value revaluation of liability	**–**	**2,629**
Balance, September 30, 2016	**5,750,000**	**3,288**

(a) On May 25, 2016, 5,750,000 warrants were issued upon completion of an equity financing (Note 12(b)(i)). Each full warrant has an exercise price of C$4.75 and an expiry date of November 25, 2017. In the event that the closing share price of the Company's common shares on the TSX is greater than C$6.00 per share for a period of 20 consecutive days at any time after May 25, 2016, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders and, in such case, the warrants will expire on the 30th day after the date on which such notice is given by the Company. As of September 30, 2016, no such notice had been given by the Company.

The issue date fair value of the warrants was estimated at $659,000. The fair value of the outstanding warrants on September 30, 2016 was $3,288,000, resulting in a derivative loss recognized in the statement of operations and comprehensive loss for the three and nine months ended September 30, 2016 of $706,000 and $2,629,000, respectively.

Under IFRS, the Company's Canadian dollar-denominated warrants are classified as derivative financial liabilities and measured at fair value until the instrument is extinguished or exercised. The warrants began trading on the TSX under the symbol "CNL.WT.A". As a result, fair value estimates are determined based on quoted market prices for the warrants and are therefore classified as level 1 within the fair value hierarchy. Any gain or loss arising from the revaluation of the Canadian dollar-denominated warrants is recognized in the statement of operations and comprehensive loss.

12. SHARE CAPITAL

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares ("Common Shares") without par value. All issued shares are fully paid. No dividends have been paid or declared by the Company since inception.

Upon completion of the Scheme (see Note 1), the balance of the share premium reserve was transferred to the authorized share capital.

(b) Issued

As of September 30, 2016, the issued share capital was 141,629,345 Common Shares. The change in issued share capital for the nine months ended September 30, 2016 and 2015 were as follows:

	Number of Shares	
	2016	2015
Balance, January 1	**129,549,628**	127,179,758
Shares issued on vesting of RSUs (Note 13)	**179,717**	–
Exercise of stock options (Note 13)	**400,000**	2,369,870
Shares issued – equity financing (i)	**11,500,000**	–
Balance, September 30	**141,629,345**	129,549,628

(i) On May 25, 2016, the Company completed an equity financing, on a bought deal basis, consisting of 11,500,000 units of the Company ("Units") at a price of C$2.50 per Unit, for gross proceeds of C$28,750,000 ($21,962,000). Each Unit consisted of one Common Share and one-half of one Common Share purchase warrant. Under IFRS, the warrants are classified as Warrant Liability (Note 11(a)).

Total share issue costs were $1,467,000, including a 5% commission of gross proceeds to the underwriters of $1,098,000. $1,420,000 of the share issue costs are recognized as a reduction to equity and the remaining $45,000, representing the portion of the issue costs allocated to the warrants, was recognized in the statement of operations and comprehensive loss for the nine months ended September 30, 2016.

13. SHARE-BASED PAYMENTS

The Company has a stock option plan (the "Option Plan"), a deferred share unit plan (the "DSU Plan") and a restricted share unit plan (the "RSU Plan") in place. The maximum number of Common Shares issuable under all share-based compensation arrangements of the Company is equal to 10% of the issued and outstanding Common Shares of the Company from time to time. The maximum number of Common Shares issuable to any one person, within any one-year period, pursuant to the security-based compensation arrangements of the Company is 5% of the total number of Common Shares then outstanding.

The DSU Plan provides that employees and directors of the Company may elect to receive up to 100% of their annual compensation in deferred share units ("DSUs"). In addition, the Board, or a Committee that administers the DSU Plan, may award such number of DSUs to an employee or director as deemed appropriate. As of September 30, 2016, there were no DSUs outstanding.

The RSU Plan provides that restricted share units ("RSUs") may be granted by the Board, or a Committee that administers the RSU Plan, to employees and consultants of the Company as a discretionary payment in consideration of past or future services to the Company. Non-employee directors are not eligible to receive RSUs. As of September 30, 2016, there were no RSUs outstanding.

The Option 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 maximum number of Common Shares to be reserved for issuance under the DSU Plan and RSU Plan is set at 250,000 and 750,000, respectively. The Option Plan and the DSU Plan contain provisions that limits the aggregate number of securities granted, excluding initial securities granted, under all security-based compensation arrangements of the Company to any one non-employee director within any one-year period.

Under the Option Plan, the Company may grant to directors, officers, employees and consultants stock options to purchase Common Shares of the Company. Stock options granted under the Option Plan will be for a term not to exceed 10 years.

Movements in stock options during the period were as follows:

	2016		2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
		C$		C$
Balance, January 1	**8,695,293**	**5.40**	10,297,663	5.50
Granted (*)(a)	**1,740,000**	**1.99**	2,620,000	2.39
Exercised	**(400,000)**	**2.45**	(2,369,870)	1.59
Expired or Forfeited	**(1,905,000)**	**7.68**	(1,580,625)	6.60
Balance, September 30	**8,130,293**	**4.28**	8,967,168	5.43

(*) The weighted average grant date fair value of stock option grants during the three and nine months ended September 30, 2016 were $1.27 per share and $0.70 per share, respectively (three and nine months ended September 30, 2015 – $1.15 per share and $0.88 per share, respectively).

The following table shows the stock options outstanding and exercisable at September 30, 2016:

	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$)
$1.29 - $2.00	1,804,605	3.71	1.57	835,022	3.30	1.52
$2.01 – $4.00	3,632,500	3.33	3.01	2,527,000	3.06	3.16
$4.01 - $6.00	300,000	1.59	4.76	300,000	1.59	4.76
$6.01 - $8.00	1,373,188	0.43	7.69	1,373,188	0.43	7.69
$8.01 – $9.66	1,020,000	1.23	8.90	1,020,000	1.23	8.90
	8,130,293	2.59	4.28	6,055,210	2.12	5.01

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

For the nine months ended September 30	**2016**	2015
Number of options granted	**1,740,000**	2,620,000
Weighted average exercise price (C$)	**1.99**	2.39
Weighted average market price ($)	**1.49**	1.89
Expected dividend yield	**nil**	nil
Expected volatility (%)	**71%**	70%
Weighted average risk-free interest rate (%)	**0.50%**	0.52%
Forfeiture rate (%)	**10.93%**	10.69%
Weighted expected life (years)	**3.04**	3.10
Weighted average grant date fair value per share ($)	**0.70**	0.88

(b) The majority of the stock options granted has vesting terms of 25% every six months from the date of grant and have a five-year term.

For the three and nine months ended September 30, 2016, nil and 179,717, respectively, RSUs were issued and vested (three and nine months ended September 30, 2015 – nil).

The Company recorded share-based payments are as follows:

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of U.S. Dollars)	**2016**	2015	**2016**	2015
			$	$
Share-based payments included in corporate administration expenses	**222**	388	**1,195**	1,182
Share-based payments capitalized to exploration and evaluation assets	**187**	221	**580**	529
	409	609	**1,775**	1,711

14. CORPORATE ADMINISTRATION EXPENSES

		Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. Dollars)	Note	**2016**	2015	**2016**	2015
		$	$	**$**	$
Salaries		**562**	501	**1,529**	1,496
Share-based payments	13(b)	**222**	388	**1,195**	1,182
Wealth tax		**–**	–	**861**	1,345
Professional fees		**428**	69	**737**	682
General office and administration		**244**	172	**678**	457
Investor relations		**119**	45	**224**	224
Directors fees and expenses		**70**	71	**210**	244
Travel expenses		**95**	69	**208**	236
Depreciation and amortization	8	**55**	91	**205**	276
Regulatory fees		**6**	16	**92**	158
Provision for bad debts		**34**	97	**34**	97
		1,835	1,519	**5,973**	6,397

15. CASH FLOW – OTHER ITEMS

(a) Other Operating Activities

		Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. Dollars)	Note	**2016**	2015	**2016**	2015
		$	$	**$**	$
Other non-cash items:					
Depreciation and amortization	8	**55**	91	**205**	276
Bad debt expense		**34**	97	**34**	97
Interest and accretion expense		**83**	4	**234**	15
Gain/loss on sale/write-down of assets		**–**	2	**(14)**	2
		172	194	**459**	390
Net changes in non-cash operating working capital balances:					
Receivables and prepaid expenses		**94**	12	**(53)**	83
Accounts payable and accrued liabilities		**768**	(932)	**112**	(236)
		862	(920)	**59**	(153)

(b) **Other Investing Activities**

	Three months ended September 30		Nine months ended September 30	
(in thousands of U.S. Dollars)	**2016**	2015	**2016**	2015
	$	$	**$**	$
Exploration and evaluation assets:				
Accounts payable and accrued liabilities attributable to exploration and evaluation assets	**(488)**	(12)	**(1,593)**	(807)
Exploration expenditures	**(7,409)**	(6,923)	**(20,812)**	(22,190)
	(7,897)	(6,935)	**(22,405)**	(22,997)
Other items:				
Prepaids and advances	**(243)**	26	**(188)**	(91)
Intangible assets	**(27)**	–	**(83)**	(30)
Proceeds from disposal	**5**	4	**19**	4
	(265)	30	**(252)**	(117)

16. COMMITMENTS AND CONTINGENCIES

Commitments

As at September 30, 2016, the Company had the following contractual commitments and obligations:

(in thousands of U.S. Dollars)	Total	Less than 1 Year	Years 2 – 5	After 5 Years
	$	$	$	$
Operating leases (a)	968	328	640	–
Capital commitments (b)	9,268	9,268	–	–
Wealth tax (c)	370	370	–	–
	10,606	9,966	640	–

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

(b) Capital commitments mainly relate to service contracts. All costs will be capitalized to exploration and evaluation assets when incurred.

(c) The Company has estimated the future commitments for the years 2017–2018 based on the Company's net equity position in Colombia as at September 30, 2016.

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 subject to change and may generally become more restrictive. The Company conducts its operations 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.