Gran Colombia Gold Corp.

Consolidated Financial Statements

For the year ended December 31, 2011
and the period from incorporation on
January 4, 2010 to December 31, 2010

Management's Report

Management is responsible for preparing the consolidated financial statements and accompanying notes. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, include management's best estimates and judgements, particularly in those circumstances where transactions affecting a current period are dependent upon future events. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Company's external auditors, KPMG LLP, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. KPMG LLP has full and free access to the Audit Committee.

The Audit Committee of the Board of Directors, consisting exclusively of independent directors, has reviewed in detail the consolidated financial statements with management and the external auditors. The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements.

"Maria Consuelo Araujo"
Chief Executive Officer

"Michael Davies"
Chief Financial Officer

Toronto, Canada
March 29, 2012

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Gran Colombia Gold Corp.

We have audited the accompanying consolidated financial statements of Gran Colombia Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 4, 2010, the consolidated statements of operations, comprehensive loss, equity and cash flows for the years ended December 31, 2011 and the period from incorporation on January 4, 2010 to December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gran Colombia Gold Corp. as at December 31, 2011, December 31, 2010 and January 4, 2010, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2011 and for the period from incorporation on January 4, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Gran Colombia Gold Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 29, 2012
Toronto, Canada

Gran Colombia Gold Corp.
Consolidated Statements of Financial Position
(Expressed in thousands of U.S. dollars)

	Notes	As at December 31, 2011	As at December 31, 2010 (Note 27)	As at January 4, 2010 (Note 27)
ASSETS				
Current				
Cash and cash equivalents		$ 20,334	$ 23,787	$ -
Cash in trust	14c,16	2,356	-	-
Accounts receivable		12,850	4,618	-
Inventories	9	20,909	2,907	-
Prepaid expenses and deposits		8,258	3,254	-
		64,707	34,566	-
Non-current				
Property, plant and equipment	10	227,972	216,269	-
Exploration and evaluation assets	11	299,535	35,996	-
Goodwill	7,8,12	32,441	1,669	-
Other assets	13	6,987	2,061	-
Total assets		$ 631,642	$ 290,561	$ -
LIABILITIES AND EQUITY				
Current liabilities				
Bank indebtedness	14a	$ 3,399	$ 2,461	$ -
Accounts payable and accrued liabilities	15	31,463	5,810	-
Amounts payable for acquisitions of exploration and evaluation assets	11	12,044	18,300	-
Current portion of long-term debt	14b,c	2,402	-	-
Income tax payable	18	4,012	-	-
Other current liabilities	5, 8	-	5,884	-
		53,320	32,455	-
Non-current				
Long-term debt	14c,d	67,653	-	-
Equity tax payable	15	8,953	-	-
Decommissioning and rehabilitation provision	8	572	-	-
Amounts payable for acquisitions of exploration and evaluation assets	11	3,828	-	-
Deferred income taxes	8,18	37,210	-	-
Other long-term provisions	16	19,320	16,075	-
Total liabilities		190,856	48,530	-
Equity				
Share capital	17b	359,221	181,501	-
Share purchase warrants	17c	131,380	91,164	-
Contributed surplus		42,751	19,760	-
Accumulated other comprehensive loss		(19,316)	(11,572)	-
Deficit		(74,003)	(39,190)	-
Total equity attributable to shareholders		440,033	241,663	-
Non-controlling interest		753	368	-
Total equity		440,786	242,031	-
Total liabilities and shareholders' equity		$ 631,642	$ 290,561	$ -

Nature of operations and going concern **(Note 1)**
Subsequent events **(Note 26)**

On behalf of the Board of Directors:

"Miguel de la Campa" (Signed) *"Jaime Perez Branger"* (Signed)

See accompanying notes to the consolidated financial statements.

Gran Colombia Gold Corp.

Consolidated Statements of Operations

(Expressed in thousands of U.S. dollars, except share amounts)

	Notes	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010 (Note 27)
Revenue		$ 137,713	$ 20,170
Cost of sales			
Operating costs		107,731	18,531
Depreciation, depletion and amortization		18,125	3,405
Mine transition expenses		404	1,181
Total cost of sales		126,260	23,117
Gross margin		11,453	(2,947)
General and administrative expenses		15,580	3,870
Acquisition costs	5,6,8	4,953	21,451
Share-based compensation expense	17e	8,168	9,939
Social contributions	13i	4,467	-
Exploration expense		-	1,007
Loss from operations		(21,715)	(39,214)
Other income (expense)			
Finance income		92	152
Finance costs	20	(9,961)	(609)
Equity tax	15	(12,605)	-
Foreign exchange income (loss)		2,113	(4)
Other income	21	10,365	-
		(9,996)	(461)
Loss before income taxes		(31,711)	(39,675)
(Provision for) recovery of income taxes			
Current	18	(3,128)	662
Deferred	18	411	-
		(2,717)	662
Net loss		**$ (34,428)**	**$ (39,013)**
Attributed to shareholders		**$ (34,813)**	**$ (39,013)**
Attributed to non-controlling interests		**$ 385**	**$ -**
Basic and diluted loss per share attributable to shareholders	**22**	**$ (0.11)**	**$ (0.43)**
Weighted average number of common shares outstanding		312,843,960	91,608,762

See accompanying notes to the consolidated financial statements.

Gran Colombia Gold Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010 (Note 27)
Net loss		**$ (34,428)**	**$ (39,013)**
Unrealized loss on available-for-sale investments, net of nil tax	13ii	(2,572)	-
Foreign currency translation adjustment, net of tax of $3,421		(5,172)	(11,572)
Comprehensive loss		**$ (42,172)**	**$ (50,585)**
Attributed to shareholders		**$ (42,539)**	**$ (50,585)**
Attributed to non-controlling interests		**$ 367**	**$ -**

See accompanying notes to the consolidated financial statements.

Gran Colombia Gold Corp.
Consolidated Statements of Equity
(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010 (Note 27)
Common shares	17b		
Balance, beginning of period		$ 181,501	$ -
Initial capitalization		-	500
First and second private placements		-	189,075
Share issue costs		-	(19,738)
Gran Colombia transaction	6	-	10,341
Acquisition of Medoro	8	178,492	-
Exercises of share purchase warrants		6,454	1,053
Exercise of stock options		18	270
Repurchased pursuant to normal course issuer bid		(7,244)	-
Balance, end of period		359,221	181,501
Share purchase warrants	17c		
Balance, beginning of period		91,164	-
Second private placement		-	86,623
Gran Colombia transaction	6	-	5,289
Acquisition of Medoro	8	47,681	-
Expiry of warrants		(2,924)	-
Exercises of share purchase warrants		(4,541)	(748)
Balance, end of period		131,380	91,164
Contributed surplus			
Balance, beginning of period		19,760	-
Share-based compensation	17e	8,168	9,939
Share issue costs	17d	-	9,925
Acquisition of Medoro	8	9,974	-
Expiry of warrants, net of tax effect of $342		2,582	-
Exercise of stock options		(6)	(104)
Discount pursuant to share repurchases		2,273	-
Balance, end of period		42,751	19,760
Accumulated other comprehensive loss			
Balance, beginning of period		(11,572)	-
Unrealized loss on available-for-sale investment	13ii	(2,572)	-
Foreign currency translation adjustment		(5,172)	(11,572)
Balance, end of period		(19,316)	(11,572)
Deficit			
Balance, beginning of period		(39,190)	-
Gran Colombia transaction	6	-	(177)
Net loss attributable to shareholders		(34,813)	(39,013)
Balance, end of period		(74,003)	(39,190)
Non-controlling interests			
Balance, beginning of period		368	-
Acquisition of CIIGSA	7	-	368
Net income attributable to non-controlling interests		385	-
Balance, end of period		753	368
Total equity		**$ 440,786**	**$ 242,031**

See accompanying notes to the consolidated financial statements.

Gran Colombia Gold Corp.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010 (Note 27)
Operating Activities			
Net loss		$ (34,428)	$ (39,013)
Adjusted for the following items:			
Depreciation and depletion		18,276	3,442
Acquisition costs		4,953	21,451
Share-based compensation		8,168	9,939
Equity tax		12,605	-
Finance income		(92)	(152)
Finance costs		9,961	609
Foreign exchange loss (gain)		(2,699)	21
Recovery of income taxes on warrant expiry		(342)	(662)
Impairment loss		2,286	-
Change in fair value of silver-linked notes payable		(13,724)	-
Impairment of available-for-sale assets		1,457	-
Change in fair value of warrants		(384)	-
Deferred income taxes		(411)	-
Changes in non-cash working capital items	23	(15,478)	(2,070)
Operating cash flows before interest and taxes		(9,852)	(6,435)
Net interest (paid) received		(2,436)	67
Equity tax paid	15	(2,165)	-
Income taxes paid		-	-
Net cash used in operating activities		(14,453)	(6,368)
Investing Activities			
Frontino acquisition, net of cash acquired	5	-	(211,317)
CIIGSA acquisition, net of cash acquired	7	-	(2,050)
Medoro acquisition, net of cash acquired	8	1,505	-
Additions to property, plant and equipment	10	(13,111)	(2,196)
Additions to exploration and evaluation assets	11	(48,032)	(19,006)
Increase in other assets	13	(1,369)	(2,116)
Decrease in other provision	16	(1,081)	(345)
Net cash used in investing activities		(62,088)	(237,030)
Financing Activities			
Increase in bank indebtedness		42	470
Repayment of bank indebtedness		(892)	-
Increase in long-term debt		7,653	1,000
Repayment of long-term debt		-	(1,000)
Increase in cash in trust for debt service	14c	(2,510)	-
Issuance of Notes, net of transaction costs	14d	74,771	-
Purchase of Notes for cancellation	14d	(1,368)	-
Proceeds on issuance of shares and warrants		-	266,385
Purchases of common shares for cancellation	17b	(4,971)	-
Exercises of stock options	17e	12	166
Exercises of share purchase warrants	17c	1,913	305
Net cash provided by financing activities		74,650	267,326
Impact of foreign exchange rate changes on cash and cash equivalents		(1,562)	(141)
(Decrease) increase in cash and cash equivalents		**(3,453)**	**23,787**
Cash and cash equivalents, beginning of period		23,787	-
Cash and cash equivalents, end of period		**$ 20,334**	**$ 23,787**

See accompanying notes to the consolidated financial statements.

Note to Reader:
Please note that all references in these financial statements to common shares, options, warrants and other securities, as applicable, even those that pre-date the common share and warrant consolidation, are stated on a post-consolidated basis.

1. NATURE OF OPERATIONS AND GOING CONCERN

Gran Colombia Gold Corp. and its subsidiaries (collectively the "Company") are engaged in the acquisition, exploration, development and operation of gold properties in Colombia. Gran Colombia Gold Corp. is a company incorporated under the laws of the Province of British Columbia. The head office of the Company is located at 333 Bay Street, Suite 1100, Toronto, Ontario, M5H 2R2 and its registered office is located at 1188 West Georgia Street, Suite 650, Vancouver, British Columbia, V6E 4A2. The Company also has offices in Bogotá and Medellin, Colombia.

These consolidated financial statements (the "financial statements") have been prepared on a going concern basis assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future. To continue as a going concern, the Company must generate profitable operations in the future through its planned capital investments and resultant increase in mineral production or continue to secure new funding. While the Company has cash balances and cash flow from production, these may not be sufficient to fund the Company's planned capital investment program and working capital requirements. As such, it may need to pursue credit facilities or delay discretionary expenditures which may have an impact on the rate of future growth in its mineral production. There can be no assurance that these initiatives will be successful. These circumstances lend significant doubt as to the ability of the Company to meet its business plan and obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not include adjustments to the recoverability and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

These are the Company's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards.* In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS. The Company has consistently applied the accounting policies used throughout all periods presented, as if these policies had always been in effect. Note 27 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effects of significant changes in accounting policies from those used in the Company's consolidated financial statements for the period from incorporation on January 4, 2010 to December 31, 2010 prepared under Canadian GAAP.

These consolidated financial statements were approved by the Board of Directors on March 29, 2012.

The financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, and are presented in U.S. dollars, rounded to the nearest thousand except when otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidate financial statements are as follows:

Consolidation

These financial statements comprise the financial statements of the Company including its subsidiaries at December 31, 2011.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies generally, but not necessarily, accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are no longer consolidated from the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity.

The Company and its significant subsidiaries, all of which have a December 31 year end, including those acquired through the acquisition of Medoro Resources (Yukon) Inc. (formerly "Medoro Resources Ltd.") ("Medoro") as described in Note 8, are as follows:

Entity	Property/ function	Location	Functional currency(2)	December 31, 2011	December 31, 2010
Gran Colombia Gold Corp.	Corporate	Canada	CA		
Gran Colombia Gold, S.A. (1)	Corporate	Panama	USD	100%	100%
Medoro	Corporate	Canada	CA	100%	-
Zancudo Gold Sucursal	El Zancudo	Colombia	USD	100%	100%
Providencia Gold Sucursal	Concepcion	Colombia	USD	80%	80%
Zandor Capital S.A. Sucursal	Segovia Operations	Colombia	COP	100%	95%
Segovia Gold Sucursal	Carla	Colombia	USD	100%	100%
Mazamorras Gold Sucursal	Mazamorras	Colombia	USD	100%	100%
CIIGSA (as defined in Note 7)	Refinery	Colombia	COP	60%	60%
Minerales Nacionales, S.A.S.	Marmato Underground	Colombia	COP	100%	-
Minerales Andinos de Occidente, S.A.	Marmato Open Pit	Colombia	USD	100%	-
Colombia Gold, S.A.	Marmato Open Pit	Colombia	USD	100%	-
Lo Increible Mining Company de Venezuela, C.A.	Lo Increible	Venezuela	USD	100%	-
Gold Resources du Mali SARL	Mali	Mali	USD	100%	-

(1) Referred to hereafter as "Gran Colombia Panama".
(2) "CA" = Canadian dollar; "USD" = U.S. dollar; "COP" = Colombian peso

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Segment reporting

The reportable segments are those whose operating results are reviewed by the chief operating decision-maker, identified as the Executive Committee of the Board of Directors, who is responsible for allocating resources and assessing performance of the operating segments.

The Company currently operates in one operating segment, being the acquisition, exploration, development and operation of gold properties in Colombia.

Business combinations

The Company uses the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of operations.
Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

Foreign currency translation

a) Functional and presentation currencies

Items included in the financial statements of each entity consolidated by the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is the Canadian dollar. The functional currency of each of the Company's significant subsidiaries is disclosed in the table under "Subsidiaries" above. The financial statements are presented in U.S. dollars as the Company believes this will faciliate comparison with other mining and resource companies.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions or revaluation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of operations in "foreign exchange income (loss)".

c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
ii) income and expenses for each consolidated statement of operations and cash flows for the periods presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
iii) components of equity are translated at the exchange rates at the dates of the relevant transactions or at average exchange rates where this is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, and are not retranslated; and
iv) all resulting exchange differences are recognized in other comprehensive loss.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of operations as part of the gain or loss on sale.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, term deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included in liabilities as bank indebtedness. As at December 31, 2011 and 2010, cash and cash equivalents was comprised solely of cash balances.

Accounts receivable

Accounts receivable are recorded based on the Company's revenue recognition policy. Provision is made in the allowance for doubtful accounts based on management's best estimate of the accounts receivable balances that may not be collectible.

Inventories

Mineral inventories are valued at the lower of average production cost and net realizable value ("NRV"). The cost of mineral inventories includes all costs related to bringing the inventory to its current condition, including mining and processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense. Materials and supplies inventories are valued at the lower of cost and NRV, where cost is based on a first in, first out basis. Net realizable value is the estimated selling price less applicable selling expenses.

Exploration and evaluation assets

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation expenditures include costs which are directly attributable to:

- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- completing pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights.

Exploration and evaluation expenditures are capitalized and are classified as such until the project demonstrates technical feasibility and commercial viability. Technical feasibility and commercial viability generally coincide with the establishment of proven and probable reserves; however, they may also occur when the Company makes a decision to proceed with development or begins production. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to the mineral properties balance within property, plant and equipment.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition and are recorded as part of the development and construction of the asset. Costs to acquire mineral properties are capitalized and represent the property's fair value at the time it was acquired, either as an individual asset purchase or as part of a business combination.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they are incurred.

Amortization of mineral properties is charged to cost of sales on a unit-of-production basis based upon proven and probable reserves and measured and indicated resources or until the properties are abandoned, sold or considered to be impaired in value. Mineral properties are tested for impairment in accordance with the policy for impairment of non-financial assets as set out below. Land is not depreciated.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Machinery and equipment	10 years
Transportation equipment	5 years
Office and other equipment	5 to 10 years
Buildings and improvements	20 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates each component separately. The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in “other income” in the consolidated statement of operations.

The recoverability of the amounts shown for mineral properties is dependent on the existence and economic extraction of resources, the capacity to obtain financing to complete the development of such reserves, the ability to obtain the necessary licenses and permits and meet the Company’s obligations under various agreements and the success of future operations or dispositions.

Borrowing costs

Borrowing costs attributable to the acquisition, development or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The Company does not capitalize borrowing costs related to exploration and evaluation assets. All other borrowing costs are recognized as finance costs in the consolidated statement of operations in the period in which they are incurred.

Goodwill

Goodwill represents the excess cost of an acquisition over the fair value of the Company’s share of the identifiable net assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and is not subject to depreciation. Gains and losses on the disposal of a unit include the carrying amount of goodwill relating to the unit sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash generating units or “CGUs”), which are typically the individual mining projects. The estimates used for impairment reviews are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36, *Impairment of Assets*. If the Company does not have sufficient information on its mine development costs to estimate the cash flows to review the recoverability of capitalized costs, the Company determines impairment by comparing the fair value to book value, without considering value in use.

When evaluating the value in use, value in use is determined based on discounted cash flow models taking into consideration estimates of the quantities of the reserves and mineral resources, future production levels, future gold prices, and future cash costs of production, capital expenditure, shutdown, restoration and environmental clean-up. Assumptions used are specific to the Company and the discount rate applied in the value in use test is based on the Company’s estimated weighted average cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecasted cash flows.

When evaluating fair value less costs to sell, fair value is determined based on the amount that could be obtained in an arm's length transaction and is generally using a discounted cash flow model based on the present value of estimated future cash flows, including future expansions or development projects. In a fair value less costs to sell analysis the assumptions used are those that a market participant would be expected to apply.

Goodwill is assessed for impairment annually or at any time if an indicator of impairment exists. The Company monitors goodwill for internal purposes based on the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Goodwill is allocated to CGUs by the end of the first annual reporting period beginning after the acquisition date and is subject to the annual impairment test in the year the allocation is completed..

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded in the consolidated statement of operations. Non-financial assets other than goodwill that were previously impaired are reviewed for possible reversal of the impairment at each reporting date when an event warrants such consideration. Goodwill is assessed for impairment together with the assets and liabilities of the related CGU or group of CGUs.

Current and deferred income tax

The provision for income tax for the period comprises current and deferred income tax. Income tax is recognized in the consolidated statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

Deferred income tax is recognized using the asset and liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined on a non-discounted basis using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income 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 on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Decommissioning liabilities

Decommissioning liabilities arise from the development, construction and normal operation of mining property, plant and equipment as mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing, and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations.

The estimated present value of reclamation liabilities is recorded in the period in which the liabilities are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated on a unit-of-production basis. The liability will be increased each period to reflect the interest element and will also be adjusted for changes in the discount rates and in the estimates of the amount, timing and cost of the work to be carried out.

Future remediation costs are accrued based on management's best estimate at the end of each period of the undiscounted cash costs expected to be incurred at each site. Changes in estimates are reflected by adjusting the decommissioning liability and the related asset in the period during which an estimate is revised. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs they will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. The estimates are dependent on labour costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and pre-tax interest rates that reflect current market assessment of time value for money and the risk specific to the obligation. The Company also estimates the timing of the outlays, which is subject to change depending on continued exploitation and newly discovered mineral reserves.

Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation.

Provisions for other liabilities and charges

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are based on management's best estimate of the expenditure required to settle the obligation and are generally measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as finance costs.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of gold and silver. Revenue is recognized upon the transfer of the ownership risks and benefits to the buyer which is generally simultaneous with delivery, when the price is fixed or determinable, and when the Company has reasonable assurance with respect to the measurement and collectability.

Share-based payments

The Company records equity-settled share-based payments under which the entity receives services from employees, consultants and directors as consideration for equity instruments (options) of the Company. For employees and others providing similar services, the total amount to be expensed is based on the fair value of the options granted.

The fair value is determined using the Black-Scholes model on grant date. Measurement inputs include share price on measurement date, exercise price, expected volatility, expected life, expected dividends, expected forfeiture rate and the risk-free interest rate.

The compensation expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of operations with a corresponding adjustment to equity.

For transactions with other third parties, the fair value of the services received in exchange for the grant of the options is recognized as an expense or asset unless the fair value of the services received cannot be reliably measured, in which case the service is measured based on the fair value of the equity instruments granted.

Earnings (loss) per share

Basic loss per share is computed by dividing net loss for the period attributable to shareholders by the weighted average number of common shares outstanding during the period.

Provided that they are not anti-dilutive, diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. This method assumes that proceeds received from the exercise of stock options and warrants and any unamortized share-based compensation amounts are used to repurchase common shares at the prevailing market rate.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Cash and cash equivalents	Loans and receivables
Accounts receivables	Loans and receivables
Investments	Available-for-sale
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Term loans	Other financial liabilities
Senior unsecured silver-linked notes	Fair value through profit and loss

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Other financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, these are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

IFRS requires an entity to classify financial assets and liabilities that are recognized in the statement of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. 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).

Gains and/or losses on financial instruments recorded at fair value through profit and loss exclude dividend income (if applicable) and finance income / costs.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Accounting standards and amendments issued but not yet adopted

The following new and revised accounting pronouncements have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective January 1, 2012

IAS 12 – *Income Taxes (Amended)* ("IAS 12"), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended)* requires additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
b. defines the principle of control, and establishes control as the basis for consolidation;
c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee ("SIC") -12 *Consolidation —Special Purpose Entities.*

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; or leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

IAS 1 *Presentation of Financial Statements* has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income ("OCI") items before tax will be required to show the amount of tax related to the two groups separately.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).
IFRIC 20 *Stripping Costs in the Production Phase of a Mine* was issued by the IASB in October 2011 and clarifies the requirements for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods.

Accounting Standards Issued and Effective January 1, 2015

IFRS 9 *Financial Instruments* replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Judgments and estimates are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ significantly from the amounts included in the consolidated financial statements. Areas of judgment that have the most significant effect on the amounts recognized in the financial statements are as follows:

a) Mineral reserves and resources

The Company's mineral reserves and resources are estimated based on information compiled by the Company's qualified persons. Mineral reserves and resources are used in the calculation of amortization and depletion, for the purpose of calculating any impairment charges, and for forecasting the timing of the payment of shutdown, restoration, and clean-up costs.

In assessing the life of a mine for accounting purposes, mineral reserves and resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating mineral reserves and resources, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Mineral reserves and resource estimates may vary as a result of changes in the price of gold, production costs and with additional knowledge of the ore deposits and mining conditions.

b) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

At each reporting date, the Company evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Company believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Company records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgments.

c) Purchase price allocations

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition-date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of the acquisition-date fair values often requires management to make assumptions and estimates about future events and generally require a high degree of judgment. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, deferred taxes and goodwill in the purchase price allocation.

d) Impairment

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may be not recoverable, with the exception of goodwill which is reviewed for impairment annually or at any time if an indictor of impairment exists. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, and current, historical or projected losses that demonstrate continuing losses.

The fair value measurement of the Company's non-financial assets, for the purpose of comparison with the carrying value, is based on numerous assumptions and may differ significantly from actual fair values.

The fair values are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions including, but not limited to, estimated gold prices, operating costs, recoveries, resources, capital and site restoration expenditures and estimated future foreign exchange rates. The fair value estimates may differ from actual fair values and these differences may be significant and could have a material impact on the Company's financial position and results of operations. Reserve and resource estimates are the most important variable in the Company's fair value estimates. A decrease in the Company's reserves and resources may result in an impairment charge, which could increase the Company's loss.

Management's estimate of future cash flows is subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect recoverability of the Company's non-financial assets.

e) Amortization and depletion of mineral properties

The mineral properties balance is depleted using the units-of-production method over the expected operating life of the mine based on estimated recoverable ounces of gold, which are the prime determinants of the life of a mine. Estimated recoverable ounces are based on proven and probable reserves and measured and indicated resource balances. Changes in these estimates will result in changes to the depletion charges over the remaining life of the operation. A decrease in reserves and resources would increase depletion expense, and this could have a material impact on the operating results.

f) Decommissioning liabilities

The Company assesses its provision for reclamation and remediation on a quarterly basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The Company is currently finalizing the requirements for an environmental management and reclamation plan at the Segovia Operations. At December 31, 2011, the costs associated with this plan had not yet been determined and as such, a decommissioning liability has not yet been recorded. Once these costs are determinable, the Company will record the decommissioning liability.

5. ACQUISITION OF ZANDOR CAPITAL S.A.

In August 2010, the Company completed the acquisition of a 95% equity interest in Zandor Capital, S.A. (“JVCo”). Medoro held the remaining 5% interest in JVCo. Immediately prior to the Company’s acquisition of JVCo, JVCo completed the acquisition (the “Frontino Acquisition”) of all of the assets (the “Segovia Project”) of Frontino Gold Mines Ltd. (“Frontino”). Concurrent with the Frontino Acquisition, the Company, Medoro and JVCo entered into an Exploration, Development and Mine Operating Agreement and Shareholders' Venture Agreement (the "Joint Venture Agreement") setting out the parties' rights and obligations with respect to their ownership in the shares in the capital of the Company. The Joint Venture Agreement included, among other provisions, the back-in right pursuant to which Medoro had the right to increase to a 50% interest in JVCo within one year by paying 50% of all costs, including the acquisition costs, capital costs and a $3.0 million success fee paid by Gran Colombia Panama, from the date of closing of the acquisition up to the date of exercise of such option, plus a premium of 25% of such costs. The Joint Venture Agreement also provided that on expiry of the back-in right, Medoro had the right to require the Company to purchase its 5% interest in JVCo for $5.9 million. This put option issued to a non-controlling interest gave rise to a financial liability, in the amount of $5.9 million, recognized at a fair value equivalent to the amount payable upon the exercise of the option and included in other current liabilities at December 31, 2010. As a result of the acquisition of Medoro as described in Note 8, the Company acquired the remaining 5% interest in JVCo and the back-in right and the put option were both cancelled as of June 10, 2011.

The accounting for this acquisition was initially done on a preliminary basis and was finalized during the third quarter of 2011. Although the finalization did not result in any adjustments to the fair value of the net assets acquired, the allocation of the fair value of the assets was updated to reflect the results of an independent valuation report and resulted in an increase in plant and equipment of $9.4 million and a corresponding decrease in mineral properties. Pursuant to IFRS 3 *Business Combinations* (“IFRS 3”), the finalization of the purchase price allocation has been applied retrospectively as of the acquisition date.

The final summary of the consideration paid and its allocation to the net assets acquired as of the acquisition date is as follows:

Purchase price:	
50% of initial deposit (COP 7,500,000,000)	$ 3,874
Cash payment on closing (COP 365,000,000,000)	201,691
	205,565
Net assets acquired:	
Cash	69
Accounts receivable	49
Inventories	2,757
Property, plant and equipment	228,475
Accounts payable and accrued liabilities	(2,422)
Deferred income tax liability	(662)
Other current liabilities	(5,884)
Other provision (Note 16)	(16,817)
	$ 205,565

During the period January 4, 2010 to December 31, 2010, the Company expensed approximately $5.8 million of costs incurred in connection with this acquisition, of which $1.7 million were included in accounts payable and accrued liabilities at December 31, 2010 (2011 – nil).

6. GRAN COLOMBIA TRANSACTION

On August 19, 2010, the Company acquired all of the issued and outstanding securities of Gran Colombia Panama by way of a three-cornered amalgamation (the “Gran Colombia Transaction”) in exchange for the issuance of 203,125,000 common shares of the Company, the issuance of 85,937,493 share purchase warrants and the issuance of 11,662,500 compensation options as described in Note 17(d). The Company also agreed to assume all of Gran Colombia Panama's obligations relating to the mineral properties. Legally, the Company is the parent of Gran Colombia Panama. However, as a result of the share exchange described above, control of the combined companies passed over to the former shareholders of Gran Colombia Panama. This type of share exchange is referred to as a reverse takeover ("RTO") transaction.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

In determining the appropriate accounting treatment for the RTO transaction, the Company considered the application of IFRS 3. However, it concluded that this transaction fell outside of the scope of IFRS 3 since the Company, whose activities prior to the acquisition were limited to identifying a possible acquisition transaction and the maintenance of its stock exchange listing, did not constitute a business. It was therefore determined that this transaction should be accounted for in a manner that was similar to the reverse acquisition accounting in IFRS 3.

The transaction was therefore accounted for in accordance with IFRS 2 *Share-based Payment*, which requires the consideration paid for the acquisition by the private company to be recognized at fair value. The Company recognized a $15.6 million charge to the loss for fiscal 2010 representing the deemed fair value of the common shares issued ($10.3 million) and the share purchase warrants ($5.3 million) honoured by Gran Colombia Panama to complete the RTO transaction.

In accordance with reverse acquisition accounting, the comparative financial information for all periods prior to the RTO transaction represents those of Gran Colombia Panama.

7. ACQUISITION OF CIIGSA

On December 2, 2010, Gran Colombia Gold S.A. signed an agreement to acquire all of the shares of Nova Partners International Corp., a Panamanian company, which owns a 60% interest in Comercializadora Internacional de Metales Preciosos y Metales Comunes Inversiones Generales S.A. ("CIIGSA"), a Colombian entity, for $2.2 million in cash. The acquisition, completed at the end of December 2010, provides the Company with a controlling interest in a fully permitted precious metals refining and smelting facility in Medellin, Colombia.

The purchase transaction has been accounted for as a business combination with the Company as the acquirer of CIIGSA. The accounting for this acquisition was initially done on a preliminary basis and was finalized during the fourth quarter of 2011. No adjustments to the preliminary allocation were necessary. The allocation of the purchase price, based on the cash consideration paid and the fair value of CIIGSA's net assets acquired at the date of acquisition is as follows:

Purchase price:	
Cash paid on closing	$ 2,221
Net assets acquired:	
Cash	171
Accounts receivable	3,163
Prepaids	1
Inventories	85
Plant and equipment	138
Goodwill	1,669
Bank indebtedness	(1,991)
Accounts payable and accrued liabilities	(647)
	2,589
Non-controlling interest	(368)
	$ 2,221

8. ACQUISITION OF MEDORO

Pursuant to an arrangement agreement dated April 13, 2011 as amended and restated as of May 4, 2011 (the "Arrangement Agreement"), and related plan of arrangement, the Company and Medoro merged in a transaction that closed on June 10, 2011. Under the terms of the Arrangement Agreement, each Medoro shareholder received 1.20 common shares of the Company, plus one-half of a common share purchase warrant (each whole warrant, a "Warrant") for each Medoro share. Each Warrant was issued under the Company's warrant indenture dated August 20, 2010 (the "Warrant Indenture") and entitles the holder thereof to acquire one common share of the Company at an exercise price of CA$2.60 per common share and shall expire on August 24, 2015. Outstanding Warrants issued under the Warrant Indenture are listed on the Toronto Stock Exchange ("TSX") under the symbol "GCM.WT". Holders of Medoro options and Medoro warrants had their Medoro securities converted into securities of the Company and on exercise will obtain shares and warrants of the Company on an equivalent basis. Following the transaction, Medoro became a fully-owned subsidiary of the Company.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The transaction allowed the Company to diversify its asset base in Colombia, gain access to the Marmato development project and take advantage of synergies in management and the operations.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. The accounting for the acquisition has been done on a preliminary basis taking into account the information available at the time these consolidated financial statements were prepared.

During the quarter ended December 31, 2011, the Company adjusted the preliminary purchase allocation as set out below:

	Preliminary	Adjustments	Total
Purchase price			
Common shares issued (172,886,495 common shares)	$ 178,492	$ -	$ 178,492
Warrants issued (72,035,656 warrants)	44,181	-	44,181
Medoro options honoured	9,919	55	9,974
Medoro warrants honoured	3,500	-	3,500
Settlement of Medoro's put option on JVCo (Note 5)	(5,884)	-	(5,884)
Total purchase price	$ 230,208	$ 55	$ 230,263

	Preliminary	Adjustments	Total
Net assets acquired			
Cash and cash equivalents	$ 8,628	$ -	$ 8,628
Inventories	4,824	-	4,824
Prepaid expenses	4,202	-	4,202
Property, plant and equipment	19,670	-	19,670
Exploration and evaluation assets	254,176	(30,144)	224,032
Goodwill	-	30,772	30,772
Other non-current assets	7,663	-	7,663
Accounts payable and accrued liabilities	(24,142)	2,830	(21,312)
Equity tax – long-term portion	(3,354)	-	(3,354)
Decommissioning and rehabilitation provision	(573)	-	(573)
Other long-term provisions	-	(3,247)	(3,247)
Deferred income tax liability	(40,886)	(156)	(41,042)
Total net assets acquired	$ 230,208	$ 55	$ 230,263

The adjustments to the allocation were made to reflect the fair value of an additional 50,000 Medoro options honoured, to record additional accounts payable and accrued liabilities assumed at the date of acquisition, to reclassify amounts in accounts payable to other long-term provisions, to recognize the impact on the deferred tax liability and to record goodwill of $30.8 million as a result of the requirement to record a deferred tax liability for the difference between the assigned values and the tax bases of the assets acquired and liabilities assumed in a business combination.

The purchase price allocation remains preliminary and is therefore subject to further adjustment prior to the end of the second quarter of 2012 for the completion of the valuation process and analysis of resulting tax effects. Final valuations of the assets and liabilities are not yet complete due to the timing of the acquisition and complexities inherent in the valuation process. The goodwill recognized has not been allocated to CGUs while the valuations of the assets and liabilities are still provisional.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The consolidated statement of operations for the year ended December 31, 2011, includes revenue of $24.8 million and a net loss of $1.8 million related to the Medoro operations from the period since the acquisition date. The Company expensed $5.0 million of acquisition costs incurred in connection with the transaction during the year ended December 31, 2011. Subsequent to the closing of the merger, the Company also paid $2.3 million of costs that had been incurred by Medoro in connection with the transaction.

Pro forma information

The following unaudited pro forma results of operations, prepared in accordance with IFRS, have been prepared as if the Medoro acquisition had occurred at January 1, 2011. The unaudited pro forma consolidated financial statement information is not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Any potential synergies that may be realized and integration costs that may be incurred have been excluded from the unaudited pro forma financial statement information. No adjustments were required in this unaudited pro forma consolidated financial statement information as a result of the effects of purchase accounting.

For the year ended December 31, 2011, pro forma consolidated revenue and net loss would have been $149.9 million and $47.0 million, respectively if the acquisition had occurred as at January 1, 2011. The pro forma net loss included a total of $7.3 million of combined acquisition costs incurred by both parties in connection with the merger transaction and a total of $17.5 million for the 2011 to 2014 equity tax payable expensed by the two companies in the first quarter of 2011.

9. INVENTORIES

	December 31, 2011	December 31, 2010
Mineral inventories	$ 13,185	$ 505
Materials and supplies	7,724	2,402
	$ 20,909	$ 2,907

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral properties	Plant and Equipment	Total
Period from January 4, 2010 to December 31, 2010			
Opening net book value	$ -	$ -	$ -
Acquisitions (Note 5)	210,956	18,430	229,386
Additions	537	2,196	2,733
Depreciation	(3,304)	(212)	(3,516)
Exchange difference	(11,862)	(472)	(12,334)
Closing net book value	$ 196,327	$ 19,942	$ 216,269
As at December 31, 2010			
Cost	$ 199,533	$ 20,151	$ 219,684
Accumulated depreciation	3,206	209	3,415
Net book value	$ 196,327	$ 19,942	$ 216,269

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

	Mineral properties	Plant and Equipment	Total
Year ended December 31, 2011			
Opening net book value	$ 196,327	$ 19,942	$ 216,269
Acquisition (Note 8)	5,976	13,694	19,670
Additions	7,035	7,507	14,542
Depreciation	(15,916)	(2,597)	(18,513)
Exchange difference	(2,258)	(1,738)	(3,996)
Closing net book value	$ 191,164	$ 36,808	$ 227,972
As at December 31, 2011			
Cost	$ 209,818	$ 40,063	$ 249,881
Accumulated depreciation	18,654	3,255	21,909
Net book value	$ 191,164	$ 36,808	$ 227,972

For the year ended December 31, 2011, the Company recorded depreciation of $17.9 million as part of cost of sales, $0.1 million in general and administrative expenses, $0.1 million as part of the change in inventories, and $0.2 million was capitalized to exploration and evaluation assets. For fiscal 2010, cost of sales and the change in inventories included depreciation of $3.4 million and $0.1 million, respectively.

A summary of the mining properties by major project at December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
Segovia Operations	$ 186,639	$ 196,327
Marmato underground	4,525	-
Net book value	$ 191,164	$ 196,327

11. EXPLORATION AND EVALUATION ASSETS

A summary of the changes in exploration and evaluation assets since incorporation on January 4, 2010 is as follows:

Balance, January 4, 2010	$ -
Acquisitions	33,984
Additions	2,012
Balance, December 31, 2010	35,996
Acquisition (Note 8)	224,032
Additions	43,231
Impairment – Concepcion project	(2,286)
Exchange difference	(1,438)
Balance, December 31, 2011	$ 299,535

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

A summary of the exploration and evaluation assets by major project at December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
Marmato	$ 252,077	$ -
El Zancudo	19,073	15,475
Concepcion	-	1,094
Mazamorras	8,920	4,157
Carla	19,465	15,270
	$ 299,535	$ 35,996

El Zancudo

The Company entered into a purchase agreement in January 2010 to acquire a 100% interest in the El Zancudo Project, located in the Titiribi mining district in Antioquia, Colombia from Consorcio de Inversionistas CDI, S.A. ("CDI") for a total purchase price of $15.0 million, of which $0.3 million has been allocated to machinery and equipment. The acquisition consists of eight mining and exploration contracts and applications, several underground mines, a gold processing plant, and an existing processing agreement with a third party to recover gold and silver from scoria (slag) from past operators located on the property. The scoria processing agreement entitles CDI to receive a 6.5% to 7% gross royalty. This purchase transaction has been accounted for as an asset acquisition.

Concepcion

The Company entered into a purchase agreement in February 2010 to acquire an 80% interest in the Concepción Project from Compañía de Minas Providencia, S.A. for a purchase price of $0.8 million. The purchase transaction was accounted for as an asset acquisition. During the year ended December 31, 2011, the Company determined that it would no longer continue exploring this project and the remaining costs capitalized to date have been written off to other income in the statement of operations.

Mazamorras

The Company acquired the Mazamorras Project in 2010, consisting of four concessions located in the department of Nariño in Colombia, for a purchase price of $4.0 million to be paid over a 30-month period. As at December 31, 2011, the Company had paid an aggregate of $2.0 million of the purchase price. Current liabilities at December 31, 2011 include the balance of the payments toward the purchase price due as follows:

- $1.0 million by May 20, 2012, and
- $1.0 million by November 20, 2012.

In addition, the Company has provided the vendors with a 2.5% net smelter return royalty, a buyout provision of $3 million, and an exploration commitment of $4.75 million over 30 months. This purchase transaction has been accounted for as an asset acquisition.

Carla

The Company entered into an agreement in April 2010 to acquire the Carla Project which includes 16 exploration properties and some mining assets located in the Segovia and Remedios municipalities of Antioquia, Colombia close to the Segovia Operations. Pursuant to an agreement with Carla Resources, S.A., the Company paid the total purchase price of $15 million over 18 months ending in October 2011. This purchase transaction has been accounted for as an asset acquisition.

Marmato Project

Mining title contracts:

The Company has entered into agreements to purchase additional mining titles related to the Marmato property. The transfer of title is conditional on approval by government authorities.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The Company has made payments of $3.3 million during the year related to the acquisition of mining titles and as at December 31, 2011 $4.4 million is included in amounts payable for exploration and evaluation assets related to title acquisitions for which approval for the transfer has been obtained. In addition, the Company has commitments to spend an additional $2.6 million which has not been accrued as approval for the transfer has not yet been received. If government approval is not obtained, the Company is no longer required to make further payments and will record an impairment charge for amounts previously paid. See Note 26 - Subsequent Events.

Compensation agreements:

The Company has entered into agreements to compensate artisanal miners who will be required to cease mining activities at the Company's Marmato property upon commencement of development activities. These contracts require amounts to be paid by the Company over a period of up to three years. The total amount to be paid under these contracts at December 31, 2011 is $9.5 million which has been accrued in amounts payable for exploration and evaluation assets ($6.4 million in current liabilities to be paid during 2012 and $3.1 million in non-current liabilities). See Note 26 - Subsequent Events.

12. GOODWILL

Balance, January 4, 2010	$	-
Acquisition – CIIGSA (Note 7)		1,669
Balance, December 31, 2010		1,669
Acquisition - Medoro (Note 8)		30,772
Balance, December 31, 2011	$	32,441

Goodwill impairment test:

The Company assesses goodwill for impairment annually (at December 31) or when indicators of impairment exist, except for goodwill recognized in business combinations during the year for which the purchase price allocations are not yet finalized and where the goodwill has not yet been allocated to CGUs.

For purposes of the impairment testing, the goodwill arising from the acquisition of CIIGSA was allocated to the CIIGSA CGU and was tested for impairment based on a fair value less costs to sell analysis. The recoverable amount of the CGU was determined using discounted future cash flow projections with assumptions that would be expected to be applied by market participants including a discount rate of 10%. The recoverable amount of the CGU was determined to be higher than the carrying value at December 31, 2011, and as such no impairment charge was required.

The goodwill of $30.8 million recognized from the acquisition of Medoro (Note 8) has not yet been allocated to CGUs as the Company is in the process of assessing the fair values of the respective assets and liabilities and identifying to which CGUs the goodwill relates.

13. OTHER ASSETS

	December 31, 2011		December 31, 2010	
Advances recoverable from future social contributions (i)	$	3,355	$	2,061
Investment in Cayden Resources Inc. (ii)		928		-
Investment in Tolima Gold Inc. (ii)		2,704		-
	$	6,987	$	2,061

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

(i) *Advances recoverable from future social contributions*

During the interim period between closing of the Frontino acquisition in August 2010 and the assignment of the pension obligations to the Colombian Social Security Institute in March 2011, the Company advanced a total of $5.3 million to fund the monthly pension payments to the plan's participants. These advances are recoverable against the Company's future obligation for social contributions. Pursuant to the terms of the Frontino Acquisition agreement, the Company must make contributions to a trust account to fund local social programs in each quarter in which it produces a minimum of 15,000 ounces of gold. The contribution rate is $4 per ounce of gold production at the minimum gold price of $700 per ounce and increases by $2 per ounce for each $50 increment in the price of gold. The terms of the agreement also provide that the Company may retain up to 70% of these quarterly contributions, if applicable, to recover these advances. Based on the Company's gold production during 2011, the Company incurred a total obligation for social contributions of $2.3 million, of which $1.6 million was applied during the period ended December 31, 2011 to reduce its advances recoverable and the balance of $0.7 million is to be paid into a trust account in accordance with the terms of the agreement. At December 31, 2011, $0.4 million has been deposited into the trust account and the remaining $0.3 million was recorded in accounts payable and accrued liabilities and was paid into the trust account in January 2012.

(ii) *Available-for-sale financial assets*

The Company has classified its investment in Cayden Resources Inc. ("Cayden") as an available-for-sale investment. During the year ended December 31, 2011, the Company recorded an impairment charge of $1.5 million in the statement of operations related to the fair value adjustment of this financial asset as it was determined that the decline in market value was significant and prolonged.

The Company has classified its investment in Tolima Gold Inc. ("Tolima") as an available-for-sale investment. Tolima was a private company until December 2011 and the Company previously recorded its investment in Tolima at cost. During December 2011, Tolima completed a reverse takeover of an entity listed on the TSX Venture Exchange. Subsequent to the reverse takeover, the Company has recorded the investment in Tolima at fair value. An unrealized impairment of $2.6 million related to the fair value adjustment of this available-for-sale investment was recorded in the statement of comprehensive loss for the year ended December 31, 2011.

The investments in Cayden and Tolima are classified as Level 1 in the fair value hierarchy outlined in IFRS 7 *Financial Instruments: Disclosures* as their fair value has been determined based on a quoted price in an active market.

14. BANK INDEBTEDNESS AND LONG-TERM DEBT

	Maturity	Currency	Interest Rate	December 31, 2011	December 31, 2010
Bank indebtedness					
Bank overdrafts (a)	Revolving	COP	8%-12%	$ 1,855	$ 45
Credit facilities (b)	Revolving	COP	DTF + 2.5% to 4%	1,544	1,894
Credit lines	January 2011	COP	5.63%	-	522
				$ 3,399	$ 2,461
Long-term debt					
Term loan (c)	April 2014	COP	DTF + 5%	$ 5,147	$ -
Silver-linked notes (d)	August 2018	USD	5%	64,908	-
Total long-term debt				70,055	
Less: current portion				2,402	-
Long-term portion				$ 67,653	$ -

a) Bank overdrafts

The Company's refinery operations have unsecured bank overdraft facilities with three Colombian banks under which it may draw funds for up to 90 days. Borrowings under these facilities are typically repaid within 10 days.

b) Credit facilities

The Company's refinery operation has an unsecured credit facility with a Colombian bank. The facility comprises a COP 3.6 billion (approximately $1.9 million) working capital facility, bearing interest at the Colombian market weekly average of fixed-term deposits ("DTF") rate (December 31, 2011 – 4.98%) plus 4%, under which it may borrow funds for up to 90 days. At December 31, 2011, there were no borrowings outstanding under this facility.

In July 2011, the Company executed an agreement with a Colombian bank for a COP 3 billion (approximately $1.5 million) credit facility, with interest at DTF plus 2.5%, under which it may borrow funds for up to 90 days which was rolled over for an additional 90 days in October 2011. At December 31, 2011, the facility was fully drawn. In January 2012, the balance outstanding under this facility was rolled over for a further 90 days.

In September 2011, the Company executed a working capital loan with a Colombian financial institution and borrowed COP 0.8 billion (approximately $0.4 million). The loan, bearing interest at 12.61% was repaid in October 2011.

c) Term loan

The Company entered into a three-year working capital facility with a Colombian bank in the amount of COP 10 billion (approximately $5.1 million) expiring by April 2014 and is secured by a portion of the operating cash flows from the Segovia Operations which are accumulated through a monthly deposit of COP 0.4 billion (approximately $0.2 million) into a restricted cash account to meet the monthly debt service obligations. At December 31, 2011, cash in trust included $1.4 million to be applied to the future debt service obligations of this term loan. Monthly repayments commenced in January 2012.

d) Senior unsecured silver-linked notes (the "Notes")

On August 11, 2011, the Company issued 80,000 Notes at a price of $1,000 principal amount per Note (the "Offering") for gross proceeds of $80 million. The Offering was completed by a syndicate of agents who were paid a cash commission of 5% of the gross proceeds. The Notes are listed on the TSX and trade under the symbol "GCM.NT.U".

The Notes, due August 11, 2018, bear interest at a rate of 5.0% per year, payable semi-annually in arrears in equal installments on December 31 and June 30 of each year. The first interest payment was paid in December 2011 and consisted of interest accrued from and including the Closing Date to that date in the amount of $1.5 million. Holders of Notes will be entitled to receive the greater of (i) the Principal Amount of the Note held, or (ii) the U.S. dollar financial equivalent to approximately 66.7 ounces of silver per Note, as determined using the average realized silver price by the Company over the 6-month period immediately prior to any repayment or redemption of principal, representing the U.S. dollar financial equivalent of an aggregate of 5.3 million ounces of silver. The quantity of silver per Note was determined using a notional price of $15 per ounce of silver, providing holders with the opportunity to benefit from silver prices in excess of $15 per ounce.

The Company, shall repay, on a pro rata basis, (a) 10% of the total principal amount of the Notes outstanding on August 11, 2015, with such principal amount being repaid on the basis of the greater of (i) 10% of the total principal amount, and (ii) the US dollar financial equivalent to 6.67 ounces of silver per Note, (b) 20% of the total principal amount of the Notes outstanding on August 11, 2016, with such principal amount being repaid on the basis of the greater of (i) 20% of the total principal amount, and (ii) the US dollar financial equivalent to 13.34 ounces of silver per Note, (c) 30% of the total principal amount of the Notes outstanding on August 11, 2017, with such principal amount being repaid on the basis of the greater of (i)

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

30% of the total principal amount, and (ii) the US dollar financial equivalent to 20.00 ounces of silver per Note, and (d) the remaining principal amount of the Notes on August 11, 2018 (being the maturity date) such principal amount being settled on the basis of the greater of (i) the balance of the principal amount of the Notes outstanding, and (ii) the US dollar financial equivalent to approximately 26.67 ounces of silver, together in each case with all accrued and unpaid interest thereon to the date of repayment.

The Notes are a financial liability and have been designated as fair value through profit and loss. The Notes contain an embedded derivative as the future principal repayments are linked to the price of silver. The embedded derivative has not been valued and recorded separately as the Company has taken the option to record the entire hybrid instrument at fair value. The Notes were recorded at face value at inception and are subsequently held at fair value with the change in fair value being recognized in the statement of operations. Fair value has been determined based on the trading price for the notes at period end. The Notes are classified as Level 1 in the fair value hierarchy outlined in IFRS 7 *Financial Instruments: Disclosures* as their fair value has been determined based on a quoted price in an active market.

During the year ended December 31, 2011, the Company repurchased a total of 1,368 silver-linked notes pursuant to a normal course issuer bid at an average price of $953.38 resulting in a gain on repurchase of $0.1 million.

	Number of Notes	Amount
As at December 31, 2010	-	$ -
Proceeds from Notes issued August 11, 2011	80,000	80,000
Notes repurchased for cancellation	(1,368)	(1,368)
Gain on mark-to-market adjustment (Note 21)	-	(13,724)
As at December 31, 2011	78,632	$ 64,908

Transaction costs of $5.2 million were incurred in connection with the Notes and have been included in finance costs in the statement of operations for the year ended December 31, 2011.

15. EQUITY TAX

On December 29, 2010, the Colombian Congress passed a law that imposed a 6% equity tax on Colombian operations. The Company’s total equity tax payable for the years 2011 to 2014 is equivalent to approximately $13.9 million, to be paid in eight equal installments.

The new equity tax is payable even in the event the Company ceases to have taxable equity in subsequent years. As such, the Company recognized the entire amount of the equity tax payable in the consolidated statements of operations during the year ended December 31, 2011. The amount recognized of $12.6 million was calculated by discounting the eight future equity tax payments at a rate of 4%. In connection with the Medoro acquisition, the Company assumed Medoro’s obligation for its remaining seven future equity tax payments, equivalent to approximately $5.0 million, or $4.6 million on a discounted basis at a rate of 4%.

A summary of the changes in the equity tax payable during the year ended December 31, 2011 is as follows:

As at December 31, 2010	$ -
Amount expensed during the period	12,605
Obligation assumed through Medoro acquisition (Note 8)	4,603
Accretion of discount	558
Paid during the period	(2,165)
Exchange difference	(515)
As at December 31, 2011	$ 15,086
Current (included in accounts payable and accrued liabilities)	$ 6,133
Non-current	8,953
	$ 15,086

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

16. OTHER PROVISIONS

	December 31, 2011	December 31, 2010
Provision for Frontino health obligations (i)	$ 16,348	$ 16,075
Provision for tax dispute (ii)	2,972	-
	$ 19,320	$ 16,075

(i) *Provision for Frontino health obligations*

In connection with the completion of the Frontino acquisition, the Company agreed to provide the funds required to pay all of the obligatory ongoing health contributions of the participants of the predecessor company's pension plan. The fair value of this obligation at the date of acquisition and December 31, 2011, based on an actuarial report prepared as at December 31, 2010 with an inflation rate of 4.5% and a discount rate of 9.5%, was COP 30.4 billion, or approximately $16.8 million. The Company is currently paying approximately COP 0.2 billion (approximately $0.1 million) monthly toward the health contributions of the pension plan participants. The Company had deposited $1.0 million in a restricted fund account as a guarantee against this obligation.

A summary of the changes in the provision for the Frontino health obligations since incorporation on January 4, 2010 is as follows:

As at January 4, 2010	$ -
Initial obligation at completion of Frontino Acquisition (Note 5)	16,817
Payment of contributions during the period	(345)
Accretion of discount	524
Exchange difference	(921)
As at December 31, 2010	16,075
Payment of contributions during the period	(1,081)
Accretion of discount	1,619
Exchange difference	(265)
As at December 31, 2011	$ 16,348

(ii) *Provision for tax dispute*

Included in other provisions is a provision of $3.0 million for an ongoing tax dispute related to one of the entities acquired as part of the acquisition of Medoro (Note 8). The Company has provided the full amount claimed in the dispute and does not expect the matter to be settled in the next twelve months.

A summary of the changes in the provision is as follows:

As at December 31, 2010	$ -
Acquisitions – Medoro (Note 8)	3,247
Exchange difference	(275)
As at December 31, 2011	$ 2,972

17. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) *Issued and fully paid*

On September 27, 2011, the Company announced that it had filed a Notice of Intention to commence a normal course issuer bid with the TSX for its common shares listed on the TSX. Under the terms of the bid, the Company has the right to purchase for cancellation through the facilities of the TSX up to a maximum of 37,993,493 common shares, representing approximately 10% of the public float of the common shares issued and outstanding as of September 23, 2011, determined in accordance with the applicable rules of the TSX. The bid will be in effect until the earlier of September 29, 2012 or the date on which the Company has purchased the maximum number of common shares permitted under the bid. During the year ended December 31, 2011, the Company repurchased for cancellation a total of 7,703,000 common shares at an average price of CA$0.65. The shares repurchased have been removed from share capital at the average cost per share in share capital prior to the repurchases with the difference of $2.3 million recorded as an increase in contributed surplus.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Changes in the Company's issued and outstanding share capital since incorporation on January 4, 2010 are summarized as follows:

	Shares		Amount
Balance, January 4, 2010	-	$	-
Initial capitalization	8,750,000		500
First private placement	22,500,000		22,163
Share issue costs	-		(2,696)
Second private placement	171,875,000		166,912
Share issue costs	-		(17,042)
Issued and outstanding at the time of the Gran Colombia Transaction (Note 6)	8,062,629		10,341
Impact of rounding of fractional shares on share consolidation	5		-
Exercises of share purchase warrants	777,500		1,053
Exercises of stock options	105,500		270
Balance, December 31, 2010	212,070,634		181,501
Acquisition of Medoro (Note 8)	172,886,495		178,492
Exercises of share purchase warrants	4,723,122		6,454
Exercises of stock options	7,000		18
Shares repurchased pursuant to normal course issuer bid	(7,703,000)		(7,244)
Balance, December 31, 2011	381,984,251	$	359,221

(c) Share purchase warrants

Unlisted Share Purchase Warrants Assumed through Gran Colombia Transaction in 2010

In connection with the Gran Colombia Transaction in August 2010 as described in Note 6, the Company assumed unlisted share purchase warrants, expiring March 19, 2011 and exercisable at CA$0.10 per warrant. Each warrant provided the holder with the right to acquire one-quarter of one common share of the Company. The value assigned to the unlisted share purchase warrants of $5.3 million was determined using a Black-Scholes option pricing model assuming no dividends were paid, an expected volatility of 145%, an annual risk free interest rate of 1.55% and an expected life of 0.6 years.

A summary of changes in issued and outstanding share purchase warrants since incorporation on January 4, 2010 is as follows:

	Warrants		Amount
Balance, January 4, 2010	-	$	-
Assumed through the Gran Colombia Transaction (Note 6)	22,000,000		5,289
Exercised during the period	(3,110,000)		(748)
Balance, December 31, 2010	18,890,000		4,541
Exercised during the year	(18,890,000)		(4,541)
Balance, December 31, 2011	-	$	-

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Warrants (GCM.WT)

In connection with the Gran Colombia Transaction as described in Note 6, the Company issued 85,937,493 share purchase warrants on a one-for-one basis with the former shareholders of Gran Colombia Panama in exchange for share purchase warrants of Gran Colombia Panama issued in connection with its August 2010 private placement.

In connection with the closing of the acquisition of Medoro on June 10, 2011 as described in Note 8, the Company issued an additional 72,035,656 Warrants, with an ascribed value of $44.2 million to the Medoro shareholders.

During the year ended December 31, 2011, 128 Warrants were exercised and 157,973,489 Warrants were outstanding at December 31, 2011. The weighted average share price at the time the Warrants were exercised was CDN$0.78.

Listed Share Purchase Warrants (GCM.WT.A) assumed through Medoro Acquisition

In connection with the Medoro acquisition, the Company exchanged 21,449,998 listed share purchase warrants with an ascribed value of $2.1 million for an equivalent number of listed Medoro share purchase warrants issued and outstanding as of June 10, 2011. Each warrant, listed on the TSX and trading under the symbol “GCM.WT.A”, is exercisable at a price of CA$3.75 per warrant and entitles the holder to acquire 1.20 common shares and one-half of a Warrant of the Company.

These listed share purchase warrants expired unexercised on November 3, 2011. Upon expiry the fair value allocated to the warrants of $2.1 million was reclassified from share purchase warrants to contributed surplus. In accordance with the Canadian Income Tax Act, the Company is deemed to have a capital gain equal to the fair value of the warrants. The capital gain is subject to tax at 50% of the corporate income tax rate. The tax expense associated with the expired warrants is recognized in contributed surplus. As the Company utilized unrecognized capital losses to reduce the current tax liability associated with the warrant expiry, a tax recovery of $0.2 million has been recorded in the net tax expense for the year.

Unlisted Share Purchase Warrants assumed through Medoro Acquisition

In connection with the Medoro acquisition, the Company also exchanged a total of 10,253,560 unlisted share purchase warrants for an equivalent number of unlisted Medoro share purchase warrants issued and outstanding as of June 10, 2011. The fair value of these warrants of $1.4 million was estimated using the Binomial option model assuming no dividends are to be paid, an expected volatility of 145%, a risk-free interest rate of 1.57% and an expected life of up to 2 years.

A summary of these unlisted share purchase warrants of the Company, as of December 31, 2011 is as follows:

Outstanding and exercisable	Currency	Exercise price per warrant	Common shares issuable	Warrants issuable (GCM.WT)	Expiry date	Remaining life (years)
1,527,537	CA	$6.00	615,903	284,672	December 28, 2012	1.0
3,722,333	USD	4.50	1,500,845	693,694	June 18, 2013	1.5
5,249,870		US$4.91	2,116,748	978,366		1.4

During the year ended December 31, 2011, 1,122 unlisted share purchase warrants with an exercise price of CA$1.50 were exercised. The share price on the date that the unlisted share purchase warrants were exercised was CA$0.72.

During the year ended December 31, 2011, 5,002,568 unlisted share purchase warrants with an exercise price of CA$1.50 expired unexercised. Upon expiry the fair value allocated to the warrants of $0.8 million was reclassified from share purchase warrants to contributed surplus. As the Company utilized unrecognized capital losses to reduce the current tax liability associated with the warrant expiry, a tax recovery of $0.1 million has been recorded in the net tax expense for the period.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The US dollar-denominated warrants are classified as derivative financial liabilities and are measured at fair value until the instrument is extinguished or exercised. Fair value is determined using the Black-Scholes option pricing model. Any gain or loss arising from the revaluation of the US dollar-denominated warrants is recognized in the statement of operations in other income.

(d) Broker compensation options

In connection with Gran Colombia Panama's April 2010 private placement, the agent was paid a cash commission of 6% of the gross proceeds of the offering and granted 1,350,000 compensation options valued at $0.9 million or CA$0.70 per option. As the fair value of the service could not be reasonably measured, the value of the compensation options was determined using a Black-Scholes option pricing model assuming no dividends were paid, an expected volatility of 145%, an annual risk-free interest rate of 1.89% and an expected life of two years. Each compensation option entitles the agent to acquire one common share at an exercise price of CA$1.00 per share for a two-year period ending April 27, 2012.

In connection with Gran Colombia Panama's August 2010 private placement, the agent was paid a cash commission of 6% of the gross proceeds of the offering and granted 10,312,500 compensation options valued at $9.0 million or CA$0.92 per option. As the fair value of the service could not be reasonably measured, the value of the compensation options was determined using a Black-Scholes option pricing model assuming no dividends were paid, an expected volatility of 145%, an annual risk-free interest rate of 1.55% and an expected life of two years. Each compensation option, exercisable at a price of CA$1.60 per compensation option, entitles the agent to acquire one common share and one-half of a Warrant for a two-year period ending August 24, 2012.

(e) Stock option

The Company has a "rolling" Stock Option Plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of common shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and, to any one optionee, may not exceed 5% of the issued common shares on a yearly basis. The exercise price of each stock option will not be less than the market price of the Company's stock at the date of grant. Each stock option vesting period and expiry is determined on a grant-by-grant basis. All stock options granted to-date have vested immediately and have a five year life from the date of grant.

A summary of changes in common shares reserved for issuance pursuant to stock options since incorporation on January 4, 2010 is as follows:

	Outstanding	**Weighted average exercise price per common share (CA$)**
Balance, January 4, 2010	-	-
Granted subsequent to the Gran Colombia Transaction	10,362,500	$1.60
Exercised in the period	(105,500)	1.60
Cancelled in the period	(100,000)	1.60
Balance, December 31, 2010	10,157,000	1.60
Assumed through the Medoro acquisition (Note 8)	13,202,260 (1)	1.55
Granted during the year	14,136,424	0.77
Exercised during the year (2)	(7,000)	1.60
Cancelled during the year	(2,006,664)	1.57
Balance, December 31, 2011	35,482,020	$1.25

(1) Fair value of $9.9 million was estimated using the Binomial option model assuming no dividends are to be paid, an expected volatility of 145%, a weighted risk-free interest rate of 2.02% and a weighted expected life of 3.2 years.
(2) The weighted average share price at the time of the exercise of the stock options was $2.08.

During the year ended December 31, 2011, the Company recorded stock compensation expense of $8.2 million (approximately CA$0.58 per option) representing the fair value of the 14,136,424 stock options that were granted during the year. The fair values of the stock options granted were determined using the Black-Scholes option pricing model, assuming no dividends are to be paid, a weighted expected volatility of 145%, a weighted risk-free interest rate of 1.21% and an expected life of 2.5 years. The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares for the period since the Gran Colombia Transaction.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The table below summarizes information about the stock options outstanding and the common shares and warrants issuable as at December 31, 2011:

Outstanding and exercisable options	Exercise price per common share (CA$)	Common shares issuable[(1)]	Warrants issuable [(1)] (GCM.WT)	Expiry date	Remaining life (years)
33,333	2.000	40,000	-	May 25, 2012	0.4
1,667	1.750	2,000	-	September 24, 2012	0.7
473,000	1.000	567,600	144,000	April 2, 2013	1.3
3,401,663	1.625	4,081,996	1,312,500	July 29, 2014	2.6
400,001	1.875	480,001	-	October 16, 2014	2.8
133,333	1.350	160,000	-	November 20, 2014	2.9
100,000	1.350	120,000	-	January 5, 2015	3.0
16,667	1.358	20,000	-	January 8, 2015	3.0
133,333	1.350	160,000	66,667	January 19, 2015	3.1
350,001	1.550	420,001	-	April 6, 2015	3.3
224,998	1.775	269,998	112,500	May 5, 2015	3.3
9,775,000	1.600	9,775,000	-	August 20, 2015	3.6
200,000	1.617	240,000	100,000	September 9, 2015	3.7
25,000	1.600	25,000	-	October 14, 2015	3.8
581,667	1.500	698,000	220,000	October 15, 2015	3.8
1,680,001	1.442	2,016,001	840,000	October 22, 2015	3.8
191,666	1.542	229,999	-	November 4, 2015	3.8
750,000	1.900	900,000	375,000	November 29, 2015	3.9
300,000	2.133	360,000	150,000	December 8, 2015	3.9
150,000	1.830	150,000	-	January 19, 2016	4.1
350,000	1.833	420,000	175,000	January 27, 2016	4.1
350,000	1.760	350,000	-	January 27, 2016	4.1
50,000	1.600	50,000	-	May 11, 2016	4.4
300,000	1.325	360,000	-	June 7, 2016	4.4
13,221,424	0.730	13,221,424	-	September 12, 2016	4.7
100,000	0.730	100,000	-	September 21, 2016	4.7
200,000	0.540	200,000	-	September 29, 2016	4.8
65,000	0.620	65,000	-	October 24, 2016	4.8
33,557,754	$1.25	35,482,020	3,495,667		3.9 years

(1) Pursuant to the Medoro acquisition, the Company exchanged stock options of the Company with holders of an equivalent number of Medoro stock options as of June 10, 2011. Under the terms of the Arrangement Agreement, each exchanged option of the Company entitles the holder to acquire 1.20 common shares and one-half of a Warrant. However, certain holders of Medoro options, for tax purposes, elected not to receive the equivalent warrants upon exercise of their exchanged options.

18. INCOME TAX

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic federal and provincial combined tax rate is provided below:

	2011	2010
Net earnings before income taxes	$ (31,711)	$ (39,675)
Canadian statutory income tax rate	28.25%	31.00%
Income tax expense (recovery) at statutory rate	(8,958)	(12,299)
Increase (decrease) in income tax provision resulting from:		
Other non-deductible (non-taxable) expenses	2,110	7,536
Share-based compensation	2,307	3,081
Differences in tax rates in foreign jurisdictions	243	(73)
Change in unrecorded deferred tax asset	3,056	1,093
Non-deductible equity tax	3,562	-
Presumptive tax	397	-
Income tax expense (recovery) for the year	2,717	(662)

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

	2011	2010
Current income tax expense (recovery)	3,128	(662)
Deferred income tax recovery	(411)	-
Income tax expense (recovery) for the year	2,717	(662)

A summary of the components of deferred income tax is as follows:

	December 31, 2011	December 31, 2010
Deferred tax assets		
Tax loss carryforwards	$ (662)	$ (662)
Deferred tax liabilities		
Exploration and evaluation assets	37,872	662
Deferred tax liabilities - net	37,210	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

A summary of the movement in net deferred tax liabilities is as follows:

	2011	2010
Balance at the beginning of the year	$ -	$ -
Recognized in profit / loss	(411)	662
Recognized in other comprehensive loss	(3,421)	-
Acquired in business combinations	41,042	(662)
Balance at the end of the year	37,210	-

The Canadian statutory income tax rate changed from 31% for the year ended December 31, 2010 to 28.25% for the 2011 taxation year as a result of the enacted reduction of Canadian corporate tax rates.

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

As at December 31, 2011, non-capital losses totaled $32.7 million (December 31, 2010 - $0.9 million) in Canada and expire between 2014 and 2031 for which no deferred tax assets have been recognized. In Colombia, non-capital losses totaled $13.0 million (December 31, 2010 - $5.0 million) for which no deferred tax assets have been recognized.

The Company has other deductible temporary differences totaling $21.3 million (December 31, 2010 - $22.2 million) for which no deferred tax assets have been recognized.

19. FINANCIAL RISK MANAGEMENT

The nature of the gold exploration process exposes the Company to risks associated with fluctuations in foreign currency exchange rates and credit risk. To date, the Company has not used derivative financial instruments to manage these risks. It is also the Company’s policy that no speculative trading in derivatives shall be undertaken.

Credit risk

The exposure to credit risk arises through the failure of a third party to meet its contractual obligations to the Company. The Company’s exposure to credit risk arises primarily from the Company’s cash balances, which are held with highly-rated Canadian and Colombian financial institutions, and accounts receivable, which were not past due at December 31, 2011. Through its refinery operations, the Company is able to sell its production to international buyers and minimize its credit exposure to any one customer, if required.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Foreign currency risk

The Company's operations, principally located in Colombia, routinely transact in the local currency rather than the US dollar, exposing the Company to potential foreign exchange risk in its financial position and cash flows. Management monitors the Company's exposure to foreign currency risk however to date has not utilized derivative financial instruments to manage this risk.

The following table summarizes, in USD equivalents, the Company's major currency exposures as of December 31, 2011:

	CAD	COP
Cash	$ 237	$ 4,548
Cash in trust	-	2,356
Accounts receivable	1,183	11,641
Bank indebtedness	-	(3,399)
Accounts payable and accrued liabilities	(1,204)	(36,927)
Long-term debt, including current portion	(64,908)	(5,147)
Net financial liabilities	$ (64,692)	$ (26,928)

Based on the net exposure at December 31, 2011, a 10% depreciation or appreciation of the CAD against the USD would result in approximately a $6.5 million increase or decrease in the Company's after-tax net loss and a 10% depreciation or appreciation of the COP against the USD would result in approximately a $1.3 million increase or decrease in the Company's after-tax net loss and would result in approximately a $1.2 million increase or decrease in the Company's other comprehensive loss.

Interest rate risk

The Company is exposed to interest rate risk on its outstanding borrowings, cash and restricted cash balances. The Company monitors its ongoing exposure to interest rates. The Company is exposed to interest rate cash flow risk on floating interest rate bank indebtedness and long-term debt due to fluctuations in market interest rates. The Company has not entered into any derivative agreements to mitigate this risk. Based on its borrowings as at December 31, 2011, a 1% hypothetical change in the variable interest rate would not expose the Company to a significant increase or decrease in its annual interest expense. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent that the Company does not believe it will have sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. The Company manages its liquidity risk by continuously monitoring forecast cash flow requirements. See Note 1 for management's assessment of the appropriateness of the use of the going concern assumption.

The Company's financial obligations currently consist of accounts payable and accrued liabilities (excluding the current portion of equity tax payable), amounts due for property acquisitions and long-term debt. Accounts payable and accrued liabilities are paid within the normal course of business from operating cash flow, and except under certain exceptions, usually no later than one month. The amounts due for property acquisitions will be funded from a combination of existing cash balances, cash generated internally from ongoing operations, and external financings where necessary. The carrying value of the accounts payable and accrued liabilities and amounts payable for property acquisitions approximates fair value as they are short term in nature. The Notes payable bear interest at a 5% fixed rate and have set payment dates for the repayment of the principal. The principal repayments are based on the price of silver to the extent that the price of silver remains above $15 per ounce (see Note 14). The interest on the Notes is expected to be paid from operating cash flow and the principal repayments will be funded from the sale of the Company's silver production. The Notes are carried at fair value. The carrying value of the long-term debt excluding the Notes approximates fair value as it is at floating rates.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

The following are the contractual maturities of financial liabilities (undiscounted) outstanding as at December 31, 2011:

	< 1 Year	1-2 Years	2-5 Years	Thereafter	Total
Bank indebtedness	$ 3,399	$ -	$ -	$ -	$ 3,399
Accounts payable and accrued liabilities	25,330	-	-	-	25,330
Amounts payable for acquisitions of exploration and evaluation assets	12,044	3,828	-	-	15,872
Long-term debt excluding the Notes, including current portion	2,402	2,059	686	-	5,147
Silver-linked Notes [(1)]	3,932	3,932	124,313	75,003	207,180
	$ 47,107	$ 9,819	$ 124,999	$ 75,003	$ 256,928

[(1)] Principal repayments will fluctuate based on the average realized silver price by the Company over the six month period immediately preceding the scheduled repayment. In the event that the Company does not receive any income from silver over the six (6) month period immediately preceding the repayment date, the mandatory repayment amounts will be calculated using the average daily "London Silver Fix" prices over the six month period immediately preceding the repayment date. For the maturity schedule above, the principal repayments have been estimated using the average London Silver Fix price for the six months immediately preceding December 31, 2011.

Price risk

Price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices. Gold and silver prices can be subject to volatile price movements, which can be material and can occur over short periods of time and are affected by numerous factors, all of which are beyond the Company's control.

The future cash flows in respect of the Notes are subject to price risk as the principal repayments over the term of the Notes are linked to the market price for silver. To the extent that the average silver price realized by the Company is $15 or less per ounce in the six month period preceding each repayment date, the Notes will be repayable at face value plus accrued interest. An increase in the price of silver of $10 per ounce over the $15 notional price would result in additional principal repayments of $53.4 million over the term of the Notes.

The fair value of the Company's investments in available-for-sale assets are subject to fluctuations in the market price of the underlying equity instruments. An increase or decrease in the market price of the securities which the Company holds would not have a material impact on net loss or comprehensive loss for the year.

Capital management

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to develop its mining properties into production and to maintain investor, creditor and market confidence to sustain the future development of the business. The Company considers its capital structure to include equity attributable to its shareholders ($440.0 million) and working capital, excluding cash in trust ($9.0 million).

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may, from time to time, issue new shares, issue new debt (secured, unsecured, convertible and/or other types of debt instruments), acquire or dispose of assets or adjust its capital spending to manage its ability to continue as a going concern.

As of December 31, 2011, the Company is not subject to any externally imposed capital requirements.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

20. FINANCE COSTS

	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010
Accretion of equity tax payable (Note 15)	$ 558	$ -
Accretion of other provision (Note 16)	1,619	524
Interest expense	2,555	85
Transaction costs on Notes (Note 14d)	5,229	-
	$ 9,961	$ 609

21. OTHER INCOME

	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010
Gain on mark-to-market adjustment of Notes (Note 14d)	$ 13,724	$ -
Impairment of exploration and evaluation assets (Note 11ii)	(2,286)	-
Impairment of available-for-sale investment (Note 13)	(1,457)	-
Gain on fair value of US$ warrants	384	-
	$ 10,365	$ -

22. LOSS PER SHARE

Loss per share amounts are calculated by dividing the net loss for the period attributable to shareholders of the Company by the weighted average number of shares outstanding during the period.

	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010
Net loss attributable to shareholders	$ (34,813)	$ (39,013)
Basic weighted average number	312,843,960	91,608,762
Basic and diluted loss per common share	$ (0.11)	$ (0.43)

As at December 31, 2011 and 2010, basic loss per share is equal to diluted loss per share, as all options and warrants outstanding are anti-dilutive. As at December 31, 2011, the Company has 33,557,754 stock options, 11,662,500 compensation options and 163,223,359 share purchase warrants which have not been included in the calculation of diluted loss per share as they are anti-dilutive.

23. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010
Accounts receivable	$ (8,660)	$ (1,437)
Inventories	(14,054)	(142)
Prepaid expenses and deposits	(1,142)	(3,329)
Accounts payable and accrued liabilities	4,809	2,838
Income tax payable	3,569	-
	$ (15,478)	$ (2,070)

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

24. RELATED PARTY TRANSACTIONS

The following transactions with related parties occurred during the years ended December 31, 2011 and 2010:

(a) In 2010, the Company paid a success fee of $3.0 million subsequent to closing of the Frontino acquisition to a company controlled by a Director of the Company, following the acquisition, in recognition of services rendered in negotiating and completing the Frontino acquisition as described in Note 5.

(b) In 2010, the Company borrowed, and subsequently repaid in full, $0.5 million from each of Blue Pacific Assets Corp. and Knottsville Capital, both controlled directly or indirectly by directors of the Company, under unsecured promissory notes payable. The proceeds of the bridge loans were used to meet obligations for certain acquisition payments and other expenditures in advance of completing the first private placement which closed on April 27, 2010.

(c) Key management personnel compensation

Key management includes the Company's Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), General Counsel and Secretary and the directors. In addition to their salaries or directors fees, executive officers and directors also participate in the Company's stock option plan (see note 17(e)).

Key management personnel compensation comprised the following:

	Year ended December 31, 2011	Period from incorporation on January 4, 2010 to December 31, 2010
Short-term employee benefits	$ 2,299	$ 856
Share-based payments	5,134	5,820[1]
	7,433	6,676

[1] Includes the success fee of $3.0 million paid to a company controlled by a Director of the Company as described in (a) above.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

25. SEGMENT DISCLOSURES

The Company currently operates in one operating segment, being the acquisition, exploration, development and operation of gold properties in Colombia.

For the years ended December 31, 2011 and 2010, all of the Company's sales were made to customers located in the United States. As at December 31, 2011 and 2010, all material non-current assets of the Company were located in Colombia.

26. SUBSEQUENT EVENTS

In March 2012, the Company entered into a two year term loan with a Colombian bank in the amount of COP 8 billion (approximately $4.1 million). The facility is repayable in eight instalments and will bear interest at 11.03%. As at March 29, 2012, this loan was fully drawn.

Subsequent to December 31, 2011, the Company entered into the following agreements:

- Compensation agreements totalling $10.1 million (see note 11).
- Mining title acquisitions totalling $4.4 million (see note 11).
- Agreements to acquire mining titles where no title has been transferred totalling $3.9 million (see note 11).

27. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

In preparing the consolidated financial statements, the Company has adjusted amounts reported previously in its consolidated financial statements prepared under Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's consolidated statements of operations and comprehensive loss and the consolidated statements of financial position is included in the following reconciliations and notes.

The transition from Canadian GAAP to IFRS did not materially change the underlying cash flows of the Company.

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Reconciliation of Consolidated Statements of Financial Position

		December 31, 2010			January 4, 2010		
		CA GAAP	**Adj.**	**IFRS**	**CA GAAP**	**Adj.**	**IFRS**
Assets							
Current							
Cash and cash equivalents		$ 23,787	-	$23,787	$ -	$ -	$ -
Accounts receivable		4,618	-	4,618	-	-	-
Inventories		2,907	-	2,907	-	-	-
Prepaid expenses and deposits		3,254	-	3,254	-	-	-
		34,566	-	34,566	-	-	-
Non-current							
Plant and equipment	c	10,518	(10,518)	-	-	-	-
Mineral and exploration properties and rights	a,b,d,e	250,657	(250,657)	-	-	-	-
Property, plant and equipment	b,c,d,f	-	216,269	216,269	-	-	-
Exploration and evaluation assets	a,g	-	35,996	35,996	-	-	-
Goodwill		1,669	-	1,669	-	-	-
Other assets		2,061	-	2,061	-	-	-
		264,905	(8,910)	255,995	-	-	-
Total assets		299,471	(8,910)	290,561	-	-	-
Liabilities							
Current							
Bank indebtedness		2,461	-	2,461	-	-	-
Accounts payable and accrued liabilities		5,810	-	5,810	-	-	-
Amounts payable for property acquisitions		18,300	-	18,300	-	-	-
Other current liabilities		5,884	-	5,884	-	-	-
		32,455	-	32,455	-	-	-
Non-current							
Deferred income tax liability	f,g,h	2,436	(2,436)	-	-	-	-
Other long term liabilities		16,075	-	16,075	-	-	-
		18,511	(2,436)	16,075	-	-	-
Total liabilities		50,966	(2,436)	48,530	-	-	-
Non-controlling interest	k	368	(368)	-	-	-	-
Equity							
Share capital	e	170,412	11,089	181,501	-	-	-
Contributed surplus		19,760	-	19,760	-	-	-
Share purchase warrants	e	86,623	4,541	91,164	-	-	-
Accumulated other comprehensive loss		(11,572)	-	(11,572)	-	-	-
Deficit	d,e,h,i	(17,086)	(22,104)	(39,190)	-	-	-
Total shareholders' equity		248,137	(6,474)	241,663	-	-	-
Non-controlling interest	k	-	368	368	-	-	-
Total equity		248,137	(6,106)	242,031	-	-	-
Total liabilities and equity		$ 299,471	$ (8,910)	$ 290,561	$ -	$ -	$ -

(Tabular amounts expressed in thousands of U.S. dollars unless otherwise noted)

Reconciliation of Consolidated Statements of Operations and Comprehensive Loss

		Period from incorporation on January 4, 2010 to December 31, 2010		
		CA GAAP	**Adj.**	**IFRS**
Revenue		$ 20,170	$ -	$ 20,170
Cost of sales		21,936	-	21,936
Mine transition expenses		1,181	-	1,181
		23,117	-	23,117
Gross margin		(2,947)	-	(2,947)
General and administration		3,870	-	3,870
Acquisition costs	d,e	-	21,451	21,451
Stock-based compensation		9,939	-	9,939
Exploration		1,007	-	1,007
Loss from operations		(17,763)	(21,451)	(39,214)
Other income (expenses)				
Interest income		152	-	152
Interest expense		(609)	-	(609)
Foreign exchange gain (loss)	h	97	(101)	(4)
		(360)	(101)	(461)
Loss before income taxes		(18,123)	(21,552)	(39,675)
Recovery of income taxes	i	1,214	(552)	662
Net loss		(16,909)	(22,104)	(39,013)
Other comprehensive loss				
Change in cumulative translation adjustments		(11,572)	-	(11,572)
Comprehensive loss for the period		$ (28,481)	$ (22,104)	$ (50,585)

Notes for reconciliations from Canadian GAAP to IFRS

Mineral properties and exploration and evaluation assets

a) In accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, exploration and evaluation assets shall be classified as intangible or tangible according to the nature of the assets acquired and the classification should be applied consistently. Under Canadian GAAP, all exploration and evaluation assets were included in “Mineral and Exploration Properties and Rights” on the consolidated statement of financial position. As at the transition date, capitalized exploration and evaluation costs related to El Zancudo, Concepcion, Mazamorras and Carla were reclassified as intangible assets. This resulted in an adjustment of $37.5 million at December 31, 2010 to reclassify capitalized costs from mineral and exploration properties and rights to exploration and evaluation assets on the consolidated statement of financial position. There was no adjustment required at the transition date.

b) The investment in the Gran Colombia mine under IFRS has been classified as a tangible asset. As such, $213.2 million of capitalized exploration and evaluation costs were reclassified at December 31, 2010 from mineral and exploration properties and rights to property, plant and equipment on the consolidated statement of financial position.

c) At December 31, 2010, $10.5 million was reclassified from plant and equipment to property, plant and equipment on the consolidated statement of financial position.

Business combinations

d) Acquisition of JVCo (Note 5)

Under Canadian GAAP, the Company had capitalized $5.8 million of transaction costs related to the acquisition of JVCo in 2010, including a $3.0 million finder's fee. Under IFRS, transaction costs are expensed in the period incurred. An adjustment of $5.8 million has been made to expense the acquisition costs during fiscal 2010 resulting in a decrease in property, plant and equipment on the December 31, 2010 consolidated statement of financial position.

e) Gran Colombia Transaction (Note 6)

Under IFRS, the Company recognized an expense of $15.6 million during 2010 representing the deemed fair value of the common shares issued and the share purchase warrants honoured by Gran Colombia Panama to complete the Gran Colombia Transaction. Under Canadian GAAP, the cost of the transaction was deemed to be the fair value of the net assets acquired. The adjustment at December 31, 2010 includes a $0.7 million transfer to share capital from share purchase warrants representing the portion of the fair value allocated to the share purchase warrants exercised in 2010.

Deferred income tax

f) An adjustment was made under IFRS at December 31, 2010 to reverse the future income tax liability of $1.6 million under Canadian GAAP related to the capitalized transaction costs in the acquisition of JVCo in (d) above, resulting in a decrease in property, plant and equipment and deferred income taxes.

g) Under IFRS, no deferred income tax asset or liability is recorded in relation to the difference in tax basis and book basis in asset acquisitions. An adjustment was made at December 31, 2010 under IFRS to reverse the future income tax liability of $1.5 million under Canadian GAAP related to the acquisition of the Carla project in 2010, resulting in a decrease in exploration and evaluation assets and deferred income taxes.

h) An adjustment of $0.1 million to reverse the foreign exchange gain recorded under Canadian GAAP during 2010 resulting from the reversal of the future income tax liabilities in items (f) and (g) above.

i) An adjustment of $0.6 million to decrease the income tax recovery under IFRS at December 31, 2010 for additional losses which were not given recognition as a result of the adjustment in (f) above.

j) Under Canadian GAAP, deferred tax was not recognized for temporary differences in certain of the Company's entities resulting from differences between the functional currency and the currency in which the entity's taxes are denominated, being the Colombian peso. Under IFRS, such temporary differences are recognized as part of the deferred tax expense or recovery in the consolidated statement of operations and comprehensive loss. No adjustment was required at the transition date or December 31, 2010 for this item.

Non-controlling interest

k) An adjustment was made to the December 31, 2010 consolidated statement of financial position under IFRS to reclassify the non-controlling interest related to CIIGSA from liabilities to a component of total equity.