Gran Colombia Gold Corp.

Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

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 26, 2013

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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, 2012 and December 31, 2011, the consolidated statements of operations, comprehensive loss, equity and cash flows for the years then ended, 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, 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 casts significant doubt about Gran Colombia Gold Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 26, 2013
Toronto, Canada

Gran Colombia Gold Corp.

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. dollars)

	Notes	As at December 31, 2012	As at December 31, 2011 (Note 5)
ASSETS			
Current			
Cash and cash equivalents		$ 1,298	$ 20,334
Cash in trust	12c,e,h	69,982	2,356
Accounts receivable	18	24,784	12,850
Inventories	6	17,615	20,909
Prepaid expenses and deposits		7,884	8,258
Assets held for sale	7	6,055	-
		127,618	64,707
Non-current			
Cash in trust	12h, 15a	14,955	-
Property, plant and equipment	8	287,608	227,972
Exploration and evaluation assets	9	303,298	299,535
Goodwill	10	29,332	29,332
Other assets	11	3,001	6,987
Total assets		$ 765,812	$ 628,533
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness	12	$ 8,984	$ 3,399
Accounts payable and accrued liabilities	8	45,587	25,330
Amounts payable for acquisitions of exploration and evaluation assets	9	14,725	12,044
Current portion of equity tax payable	13	9,908	6,133
Current portion of long-term debt	12	9,331	2,402
Income tax payable		1,390	4,012
Liabilities of assets held for sale	7	1,861	-
		91,786	53,320
Non-current			
Long-term debt	12	170,134	67,653
Equity tax payable	13	5,017	8,953
Decommissioning and rehabilitation provision	14	10,859	572
Amounts payable for acquisitions of exploration and evaluation assets	9	3,086	3,828
Deferred income taxes	17	34,900	36,335
Other long-term provisions	15	23,954	19,320
Total liabilities		339,736	189,981
Equity			
Share capital	16b	359,221	359,221
Share purchase warrants	16c	134,307	131,380
Contributed surplus		41,541	42,751
Accumulated other comprehensive loss		2,414	(19,316)
Deficit		(112,409)	(76,237)
Total equity attributable to shareholders		425,074	437,799
Non-controlling interest		1,002	753
Total equity		426,076	438,552
Total liabilities and shareholders’ equity		$ 765,812	$ 628,533

Nature of operations and going concern **(Note 1)**

Subsequent events **(Notes 11b, 12i, 13, 18, 25)**

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, 2012	Year ended December 31, 2011
Revenue		$ 168,243	$ 137,713
Cost of sales			
Operating costs		133,400	107,731
Depreciation, depletion and amortization		16,642	18,125
Mine transition expenses		-	404
Total cost of sales		150,042	126,260
Gross margin		18,201	11,453
General and administrative expenses		16,497	15,580
Impairment of fixed, exploration and evaluation assets	7,8,9	4,084	2,286
Acquisition costs	5, 15a	3,093	4,953
Share-based compensation expense	16e	105	8,168
Social contributions	11a	3,671	4,467
Loss from operations		(9,249)	(24,001)
Other income (expense)			
Finance income		227	92
Finance costs	19	(19,194)	(9,961)
Equity tax	13	-	(12,605)
Foreign exchange income (loss)		(3,798)	2,113
Gain (loss) on financial instruments	20	(7,161)	12,651
		(29,926)	(7,710)
Loss before income taxes		(39,175)	(31,711)
(Provision for) recovery of income taxes			
Current	17	(3,096)	(3,470)
Deferred	17	6,348	(1,481)
		3,252	(4,951)
Net loss		**$ (35,923)**	**$ (36,662)**
Attributed to shareholders		**$ (36,172)**	**$ (37,047)**
Attributed to non-controlling interests		**$ 249**	**$ 385**
Basic and diluted loss per share attributable to shareholders	**21**	**$ (0.09)**	**$ (0.12)**
Weighted average number of common shares outstanding		381,984,900	312,843,960

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, 2012	Year ended December 31, 2011
Net loss		**$ (35,923)**	**$ (36,662)**
Unrealized loss on available-for-sale investments, net of nil tax	11b	-	(2,572)
Reclassification of accumulated other comprehensive income on available-for-sale investment		2,572	-
Actuarial gain on health plan obligation		564	-
Foreign currency translation adjustment		18,594	(5,172)
Comprehensive loss		**$ (14,193)**	**$ (44,406)**
Attributed to shareholders		**$ (14,520)**	**$ (44,773)**
Attributed to non-controlling interests		**$ 327**	**$ 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, 2012	Year ended December 31, 2011
Common shares	16b		
Balance, beginning of period		$ 359,221	$ 181,501
Acquisition of Medoro	5	-	178,492
Exercises of share purchase warrants		-	6,454
Exercise of stock options		-	18
Repurchased pursuant to normal course issuer bid		-	(7,244)
Balance, end of period		359,221	359,221
Share purchase warrants	16c		
Balance, beginning of period		131,380	91,164
Issuance of Gold Notes	12h	2,927	-
Acquisition of Medoro	5	-	47,681
Expiry of warrants		-	(2,924)
Exercises of share purchase warrants		-	(4,541)
Balance, end of period		134,307	131,380
Contributed surplus			
Balance, beginning of period		42,751	19,760
Share-based compensation	16e	105	8,168
Acquisition of Medoro	5	-	9,974
Expiry of warrants, net of tax effect of $342		-	2,582
Exercise of stock options		-	(6)
Tax effect of expiry of broker compensation options		(1,315)	-
Discount pursuant to share repurchases		-	2,273
Balance, end of period		41,541	42,751
Accumulated other comprehensive loss			
Balance, beginning of period		(19,316)	(11,572)
Loss on available-for-sale investment reclassified to profit or loss		2,572	-
Unrealized gain (loss) on available-for-sale investment	11b	-	(2,572)
Actuarial gain on health plan obligation		564	-
Foreign currency translation adjustment		18,594	(5,172)
Balance, end of period		2,414	(19,316)
Deficit			
Balance, beginning of period		(76,237)	(39,190)
Net loss attributable to shareholders		(36,172)	(37,047)
Balance, end of period		(112,409)	(76,237)
Non-controlling interests			
Balance, beginning of period		753	368
Net income attributable to non-controlling interests		249	385
Balance, end of period		1,002	753
Total equity		**$ 426,076**	**$ 438,552**

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, 2012	Year ended December 31, 2011
Operating Activities			
Net loss		$ (35,923)	$ (36,662)
Adjusted for the following items:			
Depreciation and depletion		16,858	18,276
Acquisition costs	15a	2,707	4,953
Share-based compensation		105	8,168
Equity tax		-	12,605
Finance income		(227)	(92)
Finance costs		19,194	9,961
Foreign exchange loss (gain)		496	(2,699)
Impairment losses		4,084	3,743
Loss (gain) on financial instruments		7,161	(14,108)
Deferred income taxes		(6,348)	1,481
Changes in non-cash working capital items	22	10,386	(15,478)
Operating cash flows before interest and taxes		18,493	(9,852)
Net interest paid		(8,754)	(2,436)
Equity tax paid	13	(2,117)	(2,165)
Income taxes paid		(3,392)	-
Net cash provided by (used in) operating activities		4,230	(14,453)
Investing Activities			
Medoro acquisition, net of cash acquired	5	-	1,505
Additions to property, plant and equipment	8	(21,333)	(13,111)
Additions to exploration and evaluation assets	9	(29,114)	(48,032)
Decrease (increase) in other assets	11	1,458	(1,369)
Proceeds from sale of investments		481	
Payments for health obligations	15	(1,143)	(1,081)
Net cash used in investing activities		(49,651)	(62,088)
Financing Activities			
Net increase (decrease) in bank indebtedness		6,854	(850)
Increase in long-term debt		11,694	7,653
Repayment of long-term debt		(3,965)	-
Increase in cash in trust	12c,e	(82,299)	(2,510)
Issuance of Silver Notes, net of transaction costs	12g	-	74,771
Purchase of Silver Notes for cancellation	12g	-	(1,368)
Issuance of Gold Notes, net of transaction costs	12h	92,818	-
Other financing costs		(489)	
Purchases of common shares for cancellation	16b	-	(4,971)
Exercises of stock options	16e	-	12
Exercises of share purchase warrants	16c	-	1,913
Net cash provided by financing activities		24,613	74,650
Impact of foreign exchange rate changes on cash and cash equivalents		1,772	(1,562)
Decrease in cash and cash equivalents		**(19,036)**	**(3,453)**
Cash and cash equivalents, beginning of year		20,334	23,787
Cash and cash equivalents, end of year		**$ 1,298**	**$ 20,334**

See accompanying notes to the consolidated financial statements.

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. The 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, including the expansion of its Segovia Operations to be funded by the net cash proceeds from the Gold Notes offering (Note 12(g)), 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 working capital requirements and portions of its planned capital investment program not funded by the Gold Notes. The Company has working capital of $35.8 million as at December 31, 2012, which includes $70.0 million restricted cash. 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 material uncertainties 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on March 26, 2013.

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, 2012.

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.

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

The Company and its significant subsidiaries, all of which have a December 31 year end, are as follows:

Entity	Property/function	Location	Functional currency[2]	December 31, 2012	December 31, 2011
Gran Colombia Gold Corp.	Corporate	Canada	CA		
Gran Colombia Gold, S.A.[1]	Corporate	Panama	USD	100%	100%
Medoro Resources (Yukon) Inc.	Corporate	Canada	CA	100%	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%	100%
Mazamorras Gold Sucursal[3]	Mazamorras	Colombia	USD	100%	100%
CIIGSA[4]	Refinery	Colombia	COP	60%	60%
Mineros Nacionales, S.A.S.	Marmato Underground	Colombia	COP	100%	100%
Minerales Andinos de Occidente, S.A.	Marmato Project	Colombia	USD	100%	100%
Minera Croesus S.A.S.	Marmato Project	Colombia	USD	100%	100%

(1) Referred to hereafter as “Gran Colombia Panama”.
(2) “CA” = Canadian dollar; “USD” = U.S. dollar; “COP” = Colombian peso
(3) Held for sale asset – See Note 7
(4) Comercializadora Internacional de Metales Preciosos y Metales Comunes Inversiones Generales S.A.

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 "Consolidation" above. The financial statements are presented in U.S. dollars as the Company believes this will facilitate 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 years 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, 2012 and 2011, 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 (expense)" 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.

Current and deferred income tax

The provision for income tax for the year 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.

Post-retirement benefits

In connection with the completion of the 2010 Frontino Gold Mines Ltd. ("Frontino") assets 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. Actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions are recorded in other comprehensive income. Changes in the present value of the obligation due to amendments or changes to the plan are recorded in profit of loss.

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.

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 financial assets
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Term loans	Other financial liabilities
Senior unsecured silver-linked notes	Financial liabilities at fair value through profit and loss
Senior secured gold-linked notes	Financial liabilities at fair value through profit and loss

Loans and receivables

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial asses that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain and loss in other comprehensive income is transferred to net earnings.

Other financial liabilities

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.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses in liabilities held for trading are recognized in profit or loss.

Fair value hierarchy

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).

Impairment

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.

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.

Assets and liabilities held for sale

A non-current asset or disposal group of assets and liabilities ("disposal group") is classified as held for sale when it meets the following criteria:

a. The non-current asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; and

b. The sale of the non-current asset or disposal group is highly probable. For the sale to be highly probable:
   i) The appropriate level of management must be committed to a plan to sell the asset (or disposal group);
   ii) An active program to locate a buyer and complete the plan must have been initiated:
   iii) The non-current asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
   iv) The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale (with certain exceptions); and
   v) Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Accounting standards and amendments issued but not yet adopted

The following new standards, and amendments to standards and interpretations, were not yet effective for the year ended December 31, 2012, and have not been applied in preparing theses consolidated financial statements.

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 (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and, (iv) 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. The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IFRS 10.

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. The Company, currently, is not a party to any joint arrangements; therefore, upon the adoption of IFRS 11 there will be no impact on its consolidated financial statements.

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. A number of new disclosures are also required but will have no impact on the Company's financial position or performance.

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.* The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IFRS 13.

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. The Company will separate items presented in OCI into two groups, as per the IAS 1 guidance, but this amendment will have no impact on the Company's financial position or performance.

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. The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IAS 12.

IAS 19 Employee Benefits (Amended) ("IAS 19") introduces changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer or recognize in full in profit or loss actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income. The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IAS 19.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IAS 27.

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). The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IAS 28.

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. The Company does not believe there will be any impact on its consolidated financial statements upon the adoption of IFRIC 20.

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. The Company has not determined the impact of the new standard on the consolidated financial statements.

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:

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.

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.

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.

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.

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.

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)

5. 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 Resources (Yukon) Inc. (formerly Medoro Resources Ltd.) ("Medoro"), merged in a transaction that closed on June 10, 2011. Following the transaction, Medoro became a wholly owned subsidiary of the Company. The Company recorded a $5.0 million charge for acquisition costs during the year ended December 31, 2011.

The transaction has been accounted for as a business combination with the Company identified as the acquirer. In accordance with IFRS, the accounting for this acquisition was initially done on a preliminary basis and was finalized in 2012. Subsequent to the preliminary accounting for the acquisition, the Company made certain adjustments to the allocation of the purchase price, taking into account new and relevant information available. Under IFRS, adjustments to the preliminary acquisition accounting are permissible for the 12 months that follow the acquisition. The adjustments include a decrease in exploration and evaluation assets of $30.1 million, an increase in goodwill of $27.7 million, a decrease in deferred income tax liability of $3.0 million, a decrease in accounts payable of $2.8 million, and an increase of $3.2 million in other long-term provisions. Goodwill in this transaction arises due to 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.

As a result of reflecting the final purchase price adjustments retrospectively, the consolidated statement of financial position as at December 31, 2011 has been recast. At December 31, 2011, goodwill decreased $3.1 million and deferred income tax liabilities decreased $0.9 million. As a result, accumulated deficit increased $2.2 million. In addition, in the fourth quarter, the Company has recorded an adjustment for an immaterial correction of an error in the purchase price resulting in an increase to goodwill of $5.6 million and a corresponding increase to deferred tax liabilities.

A summary of the allocation of the purchase price to the acquired assets of Medoro is as follows:

	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	(5,884)	-	(5,884)
Total purchase price	$ 230,208	$ 55	$ 230,263
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	-	27,663	27,663
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 (Note 15(b))	-	(3,247)	(3,247)
Deferred income tax liability	(40,886)	2,953	(37,933)
Total net assets acquired	$ 230,208	$ 55	$ 230,263

Pro forma information

The following unaudited pro forma results of operations 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.

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

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.

6. INVENTORIES

	December 31, 2012	December 31, 2011
Mineral inventories	$ 8,681	$ 13,185
Materials and supplies	8,934	7,724
	$ 17,615	$ 20,909

7. ASSETS HELD FOR SALE

The Company’s interest in the Mazamorras exploration and evaluation project is presented as assets held for sale as a result of management’s commitment to sell the property. Efforts to complete the sale commenced during the three months ended June 30, 2012 as the sale was considered highly probable. The Company recorded an impairment charge on the Mazamorras Project in the amount of $3.4 million to reduce the carrying value to the fair value of the assets and liabilities to be disposed.

In July 2012, the Company entered into a sale agreement with Andean Minerals and Metals Corp. (“Andean”) to dispose of its 100% interest in the Mazamorras Project to Andean for total consideration of $5.5 million, including the assumption of certain remaining acquisition obligations related to the property. Andean was unable to close the transaction on or before September 15, 2012 as per the sale agreement. The Company has commenced a process to identify other potential acquirers or joint venture partners for the Mazamorras Project.

8. PROPERTY, PLANT AND EQUIPMENT

	Mineral properties	Plant and equipment	Construction in progress	Total
Year ended December 31, 2011				
Opening net book value	$ 196,327	$ 19,942	$ -	$ 216,269
Acquisition – Medoro (Note 5)	5,976	13,694	-	19,670
Additions	7,035	6,399	1,108	14,542
Depreciation	(15,916)	(2,597)	-	(18,513)
Exchange difference	(2,258)	(1,725)	(13)	(3,996)
Closing net book value	$ 191,164	$ 35,713	$ 1,095	$ 227,972
As at December 31, 2011				
Cost	$ 209,818	$ 38,968	$ 1,095	$ 249,881
Accumulated depreciation	18,654	3,255	-	21,909
Net book value	$ 191,164	$ 35,713	$ 1,095	$ 227,972

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

	Mineral properties	Plant and equipment	Construction in progress	Total
Year ended December 31, 2012				
Opening net book value	$ 191,164	$ 35,713	$ 1,095	$ 227,972
Additions	3,155	6,200	15,908	25,263
Increase in decommissioning liability	9,624	-	-	9,624
Transfer from exploration and evaluation assets – Carla Mine	21,384	-	-	21,384
Reclassified to assets held for sale	-	(67)	-	(67)
Depreciation	(13,315)	(4,083)	-	(17,398)
Impairment	-	(674)	-	(674)
Exchange difference	18,393	2,765	346	21,504
Closing net book value	$ 230,405	$ 39,854	$ 17,349	$ 287,608
As at December 31, 2012				
Cost	$ 264,141	$ 47,589	$ 17,349	$ 329,079
Accumulated depreciation	33,736	7,735	-	41,471
Net book value	$ 230,405	$ 39,854	$ 17,349	$ 287,608

For the year ended December 31, 2012, the Company recorded depreciation of $16.6 million as part of cost of sales (2011 – $17.9 million), $0.3 million in general and administrative expenses (2011 - $0.1 million), $0.4 million as part of the change in inventories (2011 - $0.1 million), and $0.3 million was capitalized to exploration and evaluation assets (2011 - $0.2 million).

At December 31, 2012, accounts payable and accrued liabilities included $4.9 million related to capital expenditures for property, plant and equipment (December 31, 2011 - $2.0 million).

A summary of the mining properties by major project at December 31, 2012 and 2011 is as follows:

	December 31, 2012	December 31, 2011
Segovia Operations, including Carla Mine	$ 227,281	$ 186,639
Marmato underground	3,124	4,525
Net book value	$ 230,405	$ 191,164

The carrying value of the Segovia operations was tested for impairment at December 31, 2012 based on a fair value less costs to sell analysis. The recoverable amount of the asset 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 7.75% and long term gold prices of $1,400 to $1,600 per ounce. The recoverable amount of the asset was determined to be higher than the carrying value at December 31, 2012, and as such, no impairment charge was required. The break even gold price was calculated during this analysis to be $1,440 per ounce at December 31, 2012.

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

9. EXPLORATION AND EVALUATION ASSETS

A summary of the changes in exploration and evaluation assets is as follows:

Balance, December 31, 2010	$ 35,996
Acquisition – Medoro (Note 5)	224,032
Additions	43,231
Impairment – Concepcion project	(2,286)
Exchange difference	(1,438)
Balance, December 31, 2011	299,535
Additions	32,486
Impairment – Mazamorras Project (Note 7)	(3,410)
Reclassified to assets held for sale - Mazamorras Project (Note 7)	(5,998)
Transfer to mineral properties – Carla Mine	(21,384)
Exchange difference	2,069
Balance, December 31, 2012	$ 303,298

A summary of the exploration and evaluation assets by major project at September 30, 2012 and December 31, 2011 is as follows:

	December 31, 2012	December 31, 2011
Marmato Project	$ 282,802	$ 252,077
El Zancudo	20,496	19,073
Mazamorras Project (Note 7)	-	8,920
Carla Mine	-	19,465
	$ 303,298	$ 299,535

At December 31, 2012, accounts payable and accrued liabilities included $5.6 million related to capital expenditures for exploration and evaluation assets (December 31, 2011 - $5.0 million).

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.

As at December 31, 2012 $3.5 million is included in amounts payable for exploration and evaluation assets related to title acquisitions for which approval for the transfer has been obtained (December 31, 2011 - $4.4 million). In addition, the Company has commitments to spend an additional $19.6 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.

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.

As at December 31, 2012, $14.3 million is included in amounts payable for exploration and evaluation related to compensation agreements (December 31, 2011 - $9.5 million).

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

10. GOODWILL

Balance, December 31, 2010	$	1,669
Acquisition - Medoro (Note 5)		27,663
Balance, December 31, 2011 and 2012	$	29,332

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 in 2010 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% and future gold price of $1,400 per ounce. The recoverable amount of the CGU was determined to be higher than the carrying value at December 31, 2012, and as such, no impairment charge was required.

The goodwill of $27.7 million recognized from the acquisition of Medoro (Note 5) was allocated to the Marmato Project 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 9% and long term gold price of $1,400 per ounce. The recoverable amount of the CGU was determined to be higher than the carrying value at December 31, 2012, and as such, no impairment charge was required.

11. OTHER ASSETS

	December 31, 2012	December 31, 2011
Advances recoverable from future social contributions (a)	$ 2,208	$ 3,355
Investment in Cayden Resources Inc. (b)	-	928
Investment in Tolima Gold Inc. (b)	793	2,704
	$ 3,001	$ 6,987

(a) Advances recoverable from future social contributions

During the interim period between closing of the acquisition of all the assets of Frontino 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. In 2012, the Company made additional advances in the amount of $0.9 million in connection with the finalization of the liquidation of Frontino. These advances are recoverable against the Company's future obligation for social contributions. Pursuant to the terms of the Frontino acquisition agreement dated March 29, 2010, 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, as amended in June 2012, also provide that the Company may retain up to 75% of these quarterly contributions, if applicable, to recover these advances. Based on the Company's gold production during 2012, the Company incurred a total obligation for social contributions of $3.4 million (2011 – $2.3 million), of which $2.4 million was applied during the period ended December 31, 2012 to reduce its advances recoverable (2011 - $1.6 million), $0.5 million was deposited into the trust account and the balance of $0.5 million was included in accounts payable and accrued liabilities at December 31, 2012 (2011 - $0.3 million).

(b) Available-for-sale financial assets

In 2011, the Company classified its investment in Cayden Resources Inc. ("Cayden"), acquired in the Medoro transaction (Note 5), as an available-for-sale investment. During the year ended December 31, 2012, the Company determined that the decline in the market value of Cayden was significant and prolonged and as such, recorded an impairment charge of $0.4 million in the statement of operations related to the fair value adjustment of this financial asset. During 2011, the fair value adjustment of $1.5 million was recorded in other comprehensive income. During 2012, the Company sold all of its common shares held in Cayden for cash proceeds of $0.5 million. As at December 31, 2012, the fair value of the remaining investment in Cayden represents 207,680 Cayden share purchase warrants, each warrant entitling the Company to acquire one common share of Cayden at a exercise price of CA$4.00 at any time up to February 10, 2013. Subsequent to December 31, 2012, these warrants expired unexercised.

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

The Company has classified its investment in Tolima Gold Inc. ("Tolima"), also acquired in the Medoro transaction (Note 5) as an available-for-sale investment. An unrealized impairment of $2.0 million related to the fair value adjustment of this available-for-sale investment was recorded in the statement of operations for the year ended December 31, 2012 (2011 - $Nil) as it was determined that the decline in market value was significant. In addition, an impairment of $2.6 million on this investment which was previously recorded in other comprehensive loss was reclassified to the statement of operations during 2012.

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.

12. BANK INDEBTEDNESS AND LONG-TERM DEBT

	Maturity	Currency	Interest Rate	December 31, 2012	December 31, 2011
Bank indebtedness					
Bank overdrafts (a)	Revolving	COP	8%-12%	$ -	$ 1,855
Credit facility (b)	Revolving	USD	LIBOR + 1.45% to 1.85%	6,734	-
Credit facility (c)	Revolving	COP	DTF + 2.5% to 4.00%	-	1,544
Factoring loan (i)	Revolving	USD	1.6% monthly	2,250	-
				$ 8,984	$ 3,399
Long-term debt					
Term loan (c)	January 2015	COP	DTF + 4.5%	$ 8,483	$ -
Term loan (d)	March 2014	COP	DTF + 5.15%	2,828	-
Term loan (e)	April 2014	COP	DTF + 5%	3,393	5,147
Term loan (f)	August 2014	COP	DTF + 5.3%	495	-
Silver Notes (g)	August 2018	USD	5%	67,620	64,908
Gold Notes (h)	October 2017	USD	10%	96,646	-
Total long-term debt				179,465	70,055
Less: current portion				9,331	2,402
Long-term portion				$ 170,134	$ 67,653

a) Bank overdrafts

The Company's refinery operation has 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) Refinery operation credit facility

The Company's refinery operation has unsecured credit facilities with Colombian banks. The facilities comprise a total of $8.5 million working capital facility, bearing interest at the 30, 90 and 180-day London interbank offered rate ("LIBOR") (December 31, 2012 – 0.2087%, 0.306% and 0.50825% respectively) plus between 1.45% and 1.85%, under which it may borrow funds from up to 30 to 120 days. At December 31, 2012, the Company had drawn $6.7 million (December 31, 2011 – nil) on these facilities.

c) Term loan due January 2015

In August 2012, the Company rolled the balances of three credit facilities totaling COP 8.3 billion (approximately $4.7 million) into a new term loan for a total of COP 15 billion (approximately $8.5 million) bearing interest at the Colombian market weekly average of fixed-term deposits ("DTF") rate (December 31, 2012 – 5.22%) plus 4.5%. The facility is secured by a portion of the operating cash flows from the Segovia Operations which are accumulated through a monthly deposit of COP 1.0 billion (approximately $0.5 million) into a restricted cash account to meet the debt service obligations. Prior to the first scheduled repayment on the loan, the maturity date was extended to January 2015 and the first of eight quarterly payments will commence in April 2013.

d) Term loan due March 2014

In March 2012, the Company executed a two-year working capital facility, bearing interest at the DTF plus 5.15%, with a Colombian financial institution and borrowed COP 8 billion (approximately $4.5 million). The loan is being repaid in eight quarterly payments. Repayments commenced in June 2012. As at December 31, 2012, $1.7 million had been repaid towards the principal amount.

e) Term loan due April 2014

The Company has a three-year working capital facility with a Colombian bank in the amount of COP 10 billion (approximately $5.6 million) expiring in April 2014. The facility 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 debt service obligations. Repayments commenced in January 2012. As at December 31, 2012, $2.2 million had been repaid towards the principal loan amount.

f) Term loan due August 2014

In August 2012, the Company executed a two-year working capital facility, bearing interest at the DTF plus 5.3%, with a Colombian financial institution and borrowed COP 1.0 billion (approximately $0.6 million). The loan will be repaid in eight quarterly payments. Repayments commenced in November 2012. As at December 31, 2012, $0.1 million had been repaid towards the principal amount.

g) Senior unsecured silver-linked notes (the "Silver Notes")

On August 11, 2011, the Company issued 80,000 Silver Notes at a price of $1,000 principal amount per Silver 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 Silver Notes are listed on the TSX and trade under the symbol "GCM.NT.U".

The Silver 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 August 11, 2011 (being the closing date of the Offering) to that date in the amount of $1.5 million. The second and third interest payments were paid in June 2012 and December 2012, respectively, in the amount of $2.0 million each. Holders of Silver 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 Silver 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 Silver 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 Silver 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 Silver Notes outstanding on August 11, 2017, with such principal amount being repaid on the basis of the greater of (i) 30% of the total principal amount, and (ii) the US dollar financial equivalent to 20.00 ounces of silver per Silver Note, and (d) the remaining principal amount of the Silver 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 Silver 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.

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

The Silver Notes are a financial liability and have been designated as fair value through profit and loss. The Silver 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 elected to record the entire hybrid instrument at fair value. The Silver 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 Silver Notes at period end. The Silver 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.

	Number of Silver Notes		Amount
As at December 31, 2010	-	$	-
Proceeds from Silver Notes issued August 11, 2011	80,000		80,000
Silver Notes repurchased for cancellation	(1,368)		(1,368)
Gain on mark-to-market adjustment	-		(13,724)
As at December 31, 2011	78,632	$	64,908
Loss on mark-to-market adjustment (Note 20)	-		2,712
As at December 31, 2012	78,632	$	67,620

h) Senior secured gold-linked notes (the "Gold Notes")

On October 30, 2012, the Company issued 100,000 Gold Notes at a price of $1,000 principal amount of units (the "Offering") for gross proceeds of $100 million. Each unit of the Offering consisted of one $1,000 face amount secured, 10% Gold Note and 250 common share purchase warrants (Note 16(c)). Collectively, holders of the Gold Notes have a notional call on the U.S. dollar financial equivalent of approximately 71,429 ounces of gold (the "Implied Gold Ounces") at a notional price of $1,400 per ounce.

The Gold Notes bear interest at a rate of 10% per year, accruing and payable monthly in arrears on the last business day of every month. The first interest payment date was November 30, 2012 and consisted of interest accrued from and including the closing date. The Gold Notes will mature on October 30, 2017 (the "Maturity Date") and will entitle the holder thereof to receive the greater of: (i) the U.S. dollar financial equivalent of approximately 0.7143 ounces of gold per Gold Note plus any accrued interest in cash, and (ii) the U.S. dollar face amount of the Gold Note plus any accrued interest in cash.

The holders of the Gold Notes shall have the option to require the Company to purchase up to $6.25 million aggregate face amount of the Gold Notes at the end of each three-month period beginning on the 25th month (November 2014) through the 57th month (July 2017) after the issue date, with principal being repaid in the greater of (i) up to US$6.25 million aggregate face amount of the Gold Notes, and (ii) the U.S. dollar financial equivalent of up to 6.25% of the Implied Gold Ounces underlying the Gold Notes. At maturity, the Company will be required to pay the greater of (i) the balance of the face amount of the Gold Notes and (ii) the U.S. dollar financial equivalent of the Implied Gold Ounces underlying the balance of the Gold Notes which have not been put to the Company.

The Gold Notes are considered a unit that includes two separate financial instruments, the 10% coupon secured $1,000 principal note and the unlisted share purchase warrants. As such the Company has elected to value the Gold Notes principal notes first and allocate the residual amount to the Gold Note's warrants. The Gold Note's principal notes are a financial liability and have been designated as fair value through profit and loss. The Gold Notes contain two embedded derivatives as the future principal repayments are linked to the price of gold and consist of a put option by the holder. The embedded derivatives have not been valued and recorded separately as the Company has elected to record the entire hybrid instrument at fair value. The Gold Notes were recorded at fair 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 a valuation methodology that captures all the features of the notes, including the holders' put options to have the Company partially redeem the Gold Notes in cash on certain fixed dates, in a set of partial differential equations that are then solved numerically to arrive at the value of the Gold Notes. The Gold Notes are classified as Level 2 in the fair value hierarchy outlined in IFRS 7 *Financial Instruments: Disclosures* as the fair value has been determined based on inputs, including gold prices, time value, and volatility factors, which can be substantially observed or corroborated in the marketplace.

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

	Number of Gold Notes	Amount
As at December 31, 2011	-	$ -
Proceeds from Gold Notes issued October 30, 2012	100,000	100,000
Allocation of Warrant value		(2,927)
Gain on mark-to-market adjustment	-	(427)
As at December 31, 2012	100,000	$ 96,646

The net proceeds of the offering, after deduction of transaction costs of $7.7 million (including financing costs of $0.5 million related to other proposed financings that were not completed), was $92.3 million, of which $20 million was placed in trust with an escrow agent to make the monthly interest payments on the Gold Notes during the first two years of the term of the Gold Notes. The remaining approximately $72.3 million was set aside by the Company in a segregated account to be used solely for the planned expansion of the Company’s Segovia Operations, including the construction of a 2,500 tonnes per day processing plant, the development of a new mechanized underground mine, tailings storage facilities and acquisition of mining and other equipment. At December 31, 2012, $18.3 million was held in the interest escrow account after payment of the first two months interest on the Gold Notes and $65.4 million was held in the segregated account, after $2.8 million was used to fund capital expenditures and $4.1 million was used for working capital purposes at the Segovia Operations.

The Gold Notes are secured by: (i) a general security agreement on assets of the Company; (ii) a general pledge of assets of Gran Colombia Gold, S.A. (a Panamanian company) (excluding its interest in the shares of certain Unrestricted Subsidiaries), (iii) a general pledge of assets registered against Zandor Capital, S.A. and Segovia Gold S.A., each a Panamanian company; (iv) a pledge of the securities of Zandor Capital, S.A. and Segovia Gold, S.A.; (v) a general pledge of assets in Colombia of the Colombian branches of Zandor Capital, S.A. and Segovia Gold, S.A., the registered owners of the assets comprising the Segovia/Carla Project; (vi) a pledge of the securities of Mineros Nacionales S.A., Minerales Andinos de Occidente, S.A. and Minera Croesus, S.A.S., each a Colombian corporation; (vii) a general pledge of assets of Mineros Nacionales S.A., Minerales Andinos de Occidente, S.A. and Minera Croesus, S.A.S., which are the registered owners of the assets comprising the Marmato Project; (viii) direct security on material mining titles to the Segovia/Carla Project and the Marmato Project; and (ix) a pledge of the securities and a general pledge of assets of any Restricted Subsidiary holding or receiving any cash deriving from the Segovia/Carla Project or the Marmato Project. The Company will be permitted to incur additional indebtedness that may be secured by liens on the collateral.

i) Factoring of VAT Receivables in Segovia Operations

In October 2012, the Company entered into a $2.25 million factoring loan agreement, secured against a portion of its VAT receivables related to the Segovia Operations. Bearing interest at 1.6% monthly, the factoring loan will be repaid from the applicable VAT receivable when collected. In February 2013, $0.5 million of the factoring loan was repaid upon receipt of a portion of the outstanding VAT receivable and the balance is expected to be repaid in May 2013.

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

13. EQUITY TAX

A summary of the changes in the equity tax payable is as follows:

As at December 31, 2010	$ -
Amount expensed during the period	12,605
Obligation assumed through Medoro acquisition (Note 5)	4,603
Accretion of discount	558
Paid during the period	(2,165)
Exchange difference	(515)
As at December 31, 2011	$ 15,086
Accretion of discount	495
Paid during the period	(2,117)
Exchange difference	1,461
As at December 31, 2012	$ 14,925
Current	$ 9,908
Non-current	5,017
	$ 14,925

In January 2013, the Company paid $5.1 million of the current portion of equity tax payable related to 2012. The balance of the current portion of equity tax payable is due in May and September 2013.

14. DECOMMISSIONING AND REHABILITATION PROVISION

During the second quarter of 2012, the Company filed a five-year environmental management plan for the Segovia Operations with the local authority. Although the Company is not currently required to prepare a comprehensive closure plan for the Segovia Operations, it has estimated the undiscounted costs to be incurred with respect to the ultimate mine closure and reclamation activities to be approximately $15 million. As such, the Company recorded the present value of the estimated obligation as a decommissioning liability during the second quarter of 2012. The provision recorded represents management's best estimate of the future reclamation and remediation obligation; however, the estimated amount is inherently uncertain and will be revised as further information becomes available. Actual future expenditures may therefore differ materially from the amounts currently provided.

	Expected date of expenditures	Inflation rate	Pre-tax risk free rate	Undiscounted cash flow
Marmato Mine	2020	4.6%	5.99%	$ 1,227
Segovia Operations	2020	4.6%	5.99%	14,930

Changes to the decommissioning liability were as follows:

Balance at December 31, 2010	$ -
Obligation assumed through Medoro acquisition (Note 5)	573
Accretion expense	27
Exchange difference	(28)
Balance at December 31, 2011	572
Segovia Operations	9,246
Accretion expense	495
Effect of changes in estimates	389
Exchange difference	157
Balance, December 31, 2012	$ 10,859

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

15. OTHER PROVISIONS

	December 31, 2012	December 31, 2011
Provision for Frontino health obligations (a)	$ 20,689	$ 16,348
Provision for tax dispute (b)	3,265	2,972
	$ 23,954	$ 19,320

a) Provision for Frontino health obligations

In connection with the 2010 acquisition of the Frontino assets, the Company agreed to fund the obligatory ongoing health contributions of the participants of Frontino's pension plan. The fair value of this obligation based on an actuarial report prepared as at December 31, 2012, with an inflation rate of 3.3% and a discount rate of 8.2%, was COP 36.6 billion (approximately $20.7 million). In transferring the pension obligations to the Colombian Social Security Institute in March 2011, certain future pension plan participants were identified who would become eligible for coverage under the health plan when they reach retirement age. These future health plan participants were not included in the previous actuarial valuations used to quantify the present value of the Company's obligation at the time of the acquisition. The Company has recorded the $2.7 million increase in the present value of the obligation resulting from the inclusion of these future health plan participants as a charge to acquisition costs in the current year. The Company is currently paying approximately COP 0.2 billion (approximately $0.1 million) monthly to fund the obligatory health plan contributions. The Company has deposited $1.2 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 is as follows:

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
Increase in obligation, charged to acquisition costs	2,707
Actuarial gain	(564)
Payment of contributions during the period	(1,143)
Accretion of discount	1,718
Exchange difference	1,623
As at December 31, 2012	$ 20,689

b) Provision for tax dispute

Included in other provisions is a provision of $3.3 million for an ongoing tax dispute related to one of the entities acquired as part of the acquisition of Medoro (Note 5). The Company has provided for 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	$ -
Acquisition – Medoro (Note 5)	3,247
Exchange difference	(275)
As at December 31, 2011	$ 2,972
Exchange difference	293
As at December 31, 2012	$ 3,265

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

16. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) *Issued and fully paid*

Changes in the Company's issued and outstanding share capital are summarized as follows:

	Shares		Amount
Balance, December 31, 2010	212,070,634		181,501
Acquisition of Medoro (Note 5)	172,886,495		178,492
Exercises of share purchase warrants	4,723,750		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	381,984,879	$	359,221
Exercises of share purchase warrants	37		-
Balance, December 31, 2012	381,984,916	$	359,221

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. The bid expired September 29, 2012. 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 were 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 during the year ended December 31, 2011. The Company did not repurchase any common shares during 2012.

(c) Share purchase warrants

Warrants (GCM.WT)

As at December 31, 2012 and 2011, 157,973,452 and 157,973,489 Warrants were outstanding respectively. Each Warrant was issued under the Company's warrant indenture dated August 20, 2010 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.

Unlisted Share Purchase Warrants assumed through Medoro Acquisition

The unlisted share purchase warrants outstanding as of December 31, 2012 is as follows:

Outstanding and exercisable	Currency	Exercise price per warrant	Common shares issuable	Warrants issuable (GCM.WT)	Expiry date	Remaining life (years)
3,722,333	USD	3.75	1,500,845	693,694	June 18, 2013	0.5

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 loss on financial instruments (Note 20).

Unlisted Share Purchase Warrants issued through Gold Notes offering

In connection with the issuance of the 100,000 Gold Notes (Note 12(g)), the Company issued 250 unlisted share purchase warrants for each Gold Note. Each warrant will entitle the holder to purchase one of the Company's common shares at a price of C$0.75 and will expire on October 30, 2017. As at December 31, 2012, 25,000,000 Warrants were outstanding and exercisable.

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

(d) Broker compensation options

During the year ended December 31, 2012, all of the 11,662,500 broker compensation options expired unexercised, resulting in a tax expense reflected as a reduction in contributed surplus. These options were issued in connection with Gran Colombia Gold, S.A.'s, a wholly owned subsidiary of the Company, private placements in 2010.

(e) Stock option plan

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 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 is as follows:

	Outstanding	Weighted average exercise price per common share (CA$)
Balance, December 31, 2010	10,157,000	$ 1.60
Assumed through the Medoro acquisition (Note 5)	13,202,260	1.55
Granted during the year	14,136,424	0.77
Exercised during the year (1)	(7,000)	1.60
Cancelled during the year	(2,006,664)	1.57
Balance, December 31, 2011	35,482,020	$ 1.25
Granted during the year	720,500	0.66
Cancelled during the year	(3,226,501)	1.51
Balance, December 31, 2012	32,976,019	$ 1.23

(1) The weighted average share price at the time of the exercise of the stock options was $2.08.

During the year ended December 31, 2012, the Company recorded stock compensation expense of $0.1 million (approximately CA$0.15 per option) representing the fair value of the 720,500 stock options that were granted during the year. The fair value of the stock options granted was determined using the Black-Scholes option pricing model, assuming no dividends are to be paid, a weighted expected volatility of 77%, a weighted average risk-free interest rate of 1.18% and an expected life of 2.5 years. The expected volatility used in the Black-Scholes option pricing model for the year ended December 31, 2012 is based on the historical volatility of the Company's shares for the period since the reverse takeover in August 2010. The weighted average share price of the options granted in the period is CA$0.38 per option.

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.

The table below summarizes information about the stock options outstanding and the common shares and warrants issuable as at December 31, 2012:

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

Outstanding and exercisable options	Exercise price per common share (CA$)	Common shares issuable(1)	Warrants issuable (1) (GCM.WT)	Expiry date	Remaining life (years)
473,000	1.000	567,600	144,000	April 2, 2013	0.3
3,334,997	1.625	4,001,997	1,279,170	July 29, 2014	1.6
133,333	1.350	160,000	-	November 20, 2014	1.9
100,000	1.350	120,000	-	January 5, 2015	2.0
16,667	1.358	20,000	-	January 8, 2015	2.0
133,333	1.350	160,000	66,667	January 19, 2015	2.1
83,334	1.550	100,001	-	April 6, 2015	2.3
156,665	1.775	187,998	78,332	May 5, 2015	2.3
9,487,500	1.600	9,487,500	-	August 20, 2015	2.6
200,000	1.617	240,000	100,000	September 9, 2015	2.7
25,000	1.600	25,000	-	October 14, 2015	2.8
556,667	1.500	668,000	220,000	October 15, 2015	2.8
1,680,001	1.442	2,016,001	840,000	October 22, 2015	2.8
191,666	1.542	229,999	-	November 4, 2015	2.8
750,000	1.900	900,000	375,000	November 29, 2015	2.9
200,000	2.133	240,000	100,000	December 8, 2015	2.9
112,500	1.830	112,500	-	January 19, 2016	3.1
50,000	1.833	60,000	25,000	January 27, 2016	3.1
50,000	1.760	50,000	-	January 27, 2016	3.1
50,000	1.600	60,000	25,000	May 11, 2016	3.4
50,000	1.600	50,000	-	May 11, 2016	3.4
12,533,923	0.730	12,533,923	-	September 12, 2016	3.7
100,000	0.730	100,000	-	September 21, 2016	3.7
200,000	0.540	200,000	-	September 29, 2016	3.7
65,000	0.620	65,000	-	October 24, 2016	3.8
175,000	0.430	175,000	-	January 12, 2017	4.0
445,500	0.730	445,500	-	April 4, 2017	4.3
31,354,086	$1.23	32,976,019	3,253,169		2.8 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.

17. INCOME TAX

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

	2012	2011
Net loss before income taxes	$ (39,175)	$ (31,711)
Canadian statutory income tax rate	26.5%	28.25%
Income tax recovery at statutory rate	(10,381)	(8,958)
Increase (decrease) in income tax provision resulting from:		
Other non-deductible (non-taxable) expenses	3,673	4,344
Share-based compensation	28	2,307
Differences in tax rates in foreign jurisdictions	(720)	243
Change in unrecorded deferred tax asset	4,233	3,056
Non-deductible equity tax	-	3,562
Presumptive tax	(85)	397
Income tax expense (recovery) for the year	$ (3,252)	$ 4,951

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

	2012	2011
Current income tax expense	$ 3,096	$ 3,470
Deferred income tax expense (recovery)	(6,348)	1,481
Income tax expense (recovery) for the year	$ (3,252)	$ 4,951

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

	December 31, 2012	December 31, 2011
Deferred tax assets		
Tax loss carryforwards	$ 2,921	$ 3,408
Deferred tax liabilities		
Exploration and evaluation assets	(37,821)	(39,743)
Deferred tax liabilities - net	$ (34,900)	$ (36,335)

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:

	2012	2011
Balance at the beginning of the year	$ 36,335	$ -
Recognized in profit / loss	(6,347)	1,823
Recognized in contributed surplus	1,315	-
Recognized in other comprehensive loss	3,597	(3,421)
Acquired in business combinations	-	37,933
Balance at the end of the year	$ 34,900	$ 36,335

The Canadian statutory income tax rate changed from 28.25% for the year ended December 31, 2011 to 26.5% for the 2012 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, 2012, non-capital losses totaled $45.1 million (December 31, 2011 - $32.7 million) in Canada and expire between 2014 and 2032 for which no deferred tax assets have been recognized. In Colombia, non-capital losses totaled $23.5 million (December 31, 2011 - $13.0 million) for which no deferred tax assets have been recognized.

The Company has other deductible temporary differences totaling $80.9 million (December 31, 2011 - $77.6 million) for which no deferred tax assets have been recognized.

18. 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. Through

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

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.
Detail of the Company's accounts receivable by source is as follows:

	December 31, 2012	December 31, 2011
Trade	$ 5,396	$ 1,904
Recoverable non-income taxes	17,608	9,230
Other	1,780	1,716
Total accounts receivable	$ 24,784	$ 12,850

The Company's accounts receivable are aged as follows:

	December 31, 2012	December 31, 2011
Not past due	$ 13,071	$ 8,284
Past due (0-30 days)	2,476	2,969
Past due (31-120 days)	3,068	1,152
Past due (over 120 days)	6,209	521
Allowance for doubtful accounts	(40)	(76)
Total accounts receivable	$ 24,784	$ 12,850

Subsequent to December 31, 2012, the Company has collected a total of $10.4 million of its past due recoverable non-income taxes.

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, 2012:

	CA	COP
Cash	$ 69	$ 1,023
Cash in trust	-	1,202
Accounts receivable	322	19,066
Bank indebtedness	-	-
Accounts payable and accrued liabilities	(1,391)	(42,333)
Long-term debt, including current portion	-	(15,199)
Net financial liabilities	$ (1,000)	$ (36,241)

Based on the net exposure at December 31, 2012, a 10% depreciation or appreciation of the CA against the USD would not result in a significant 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 $0.7 million increase or decrease in the Company's after-tax net loss and would result in approximately a $2.9 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, 2012, 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.

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

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, 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 Silver 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 12(f)). The interest on the Silver 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 Silver Notes are carried at fair value. The Gold Notes payable bear interest at a 10% fixed rate and have varied payment dates, due to the holder's option to request partial payment at the end of each three-month period beginning on November 2014, for the repayment of the principal. The principal repayments are based on the price of gold to the extent that the price of gold remains above $1,400 per ounce (see Note 12(g)). From the net proceeds of the offering, $20 million was placed in trust with an escrow agent to make the monthly interest payments on the Gold Notes during the first two years of the term of the Gold Notes. The balance of the interest payments is expected to be paid from operating cash flow and the principal repayments will be funded from the sale of the Company's gold production. The Gold Notes are carried at fair value. The carrying value of the long-term debt excluding the Silver Notes and Gold Notes approximates fair value as it is at floating rates.

The following are the contractual maturities of financial liabilities (undiscounted) outstanding as at December 31, 2012:

	< 1 Year	1-2 Years	2-5 Years	Thereafter	Total
Bank indebtedness	$ 8,984	$ -	$ -	$ -	$ 8,984
Accounts payable and accrued liabilities	45,587	-	-	-	45,587
Amounts payable for acquisitions of exploration and evaluation assets	14,725	3,086	-	-	17,811
Long-term debt excluding the Notes, including current portion	9,331	5,868	-	-	15,199
Silver Notes (1)	-	-	130,090	32,523	162,613
Gold Notes (2)	-	-	118,860	-	118,860
	$ 78,627	$ 8,954	$ 248,950	$ 32,523	$ 369,054

(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, 2012.

(2) Principal repayments will fluctuate based on the Gold Note holder's partial repayment option and the average daily afternoon "London Gold Fix" price over the 30-day period immediately preceding the repayment date. For the maturity schedule above, the principal repayments have been estimated using the London Gold Fix price as at December 31, 2012 and assuming 100% of note holders exercise the options on the first available option date.

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

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 Silver Notes are subject to price risk as the principal repayments over the term of the Silver 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 Silver 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 $52.5 million over the term of the Silver Notes.

The future cash flows in respect of the Gold Notes are subject to price risk as the principal repayments over the term of the Gold Notes are linked to the market price for gold. To the extent that the average daily afternoon London Gold Fix price is $1,400 or less per ounce in the 30 day period preceding each repayment date, the Gold Notes will be repayable at face value plus accrued interest. An increase in the price of gold of $100 per ounce over the $1,400 notional price would result in additional principal repayments of $7.1 million over the term of the Gold 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 ($425.1 million) and working capital deficit, excluding cash in trust ($34.2 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, 2012, the Company is not subject to any externally imposed capital requirements.

19. FINANCE COSTS

	Year ended December 31, 2012	Year ended December 31, 2011
Accretion of equity tax payable (Note 13)	$ 495	$ 558
Accretion of decommissioning liability (Note 14)	495	27
Accretion of other provision (Note 15)	1,718	1,619
Interest expense	8,818	2,528
Transaction costs on Gold and Silver Notes (Notes 12f,g)	7,179	5,229
Other financing fees	489	-
	$ 19,194	$ 9,961

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

20. GAIN (LOSS) ON FINANCIAL INSTRUMENTS

	Year ended December 31, 2012	Year ended December 31, 2011
Gain (loss) on mark-to-market adjustment of Silver Notes (Note 12f)	$ (2,712)	$ 13,724
Gain on mark-to-market adjustment of Gold Notes (Note 12g)	427	-
Impairment of available-for-sale investment (Note 11b)	(4,956)	(1,457)
Gain on fair value of US$ warrants	80	384
	$ (7,161)	$ 12,651

21. LOSS PER SHARE

The 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, 2012	Year ended December 31, 2011
Net loss attributable to shareholders	$ (36,172)	$ (37,047)
Basic weighted average number of shares	381,984,900	312,843,960
Basic and diluted loss per common share	$ (0.09)	$ (0.12)

As at December 31, 2012 and 2011, basic loss per share is equal to diluted loss per share, as all options and warrants outstanding are anti-dilutive. As at December 31, 2012, the Company has 31,354,086 stock options and 186,695,785 share purchase warrants which have not been included in the calculation of diluted loss per share as they are anti-dilutive.

22. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Year ended December 31, 2012	Year ended December 31, 2011
Accounts receivable	$ (10,607)	$ (8,660)
Inventories	5,432	(14,054)
Prepaid expenses and deposits	(873)	(1,142)
Accounts payable and accrued liabilities	13,934	4,809
Income tax payable	2,500	3,569
	$ 10,386	$ (15,478)

23. RELATED PARTY TRANSACTIONS

The following transactions with related parties occurred during the years ended December 31, 2012 and 2011:

Key management personnel compensation

Key management at December 31, 2012 includes the Company's Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), General Counsel 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 16(e)).

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

Key management personnel compensation comprised the following:

	Year ended December 31, 2012	Year ended December 31, 2011
Short-term employee benefits	$ 2,453	$ 2,299
Share-based payments	-	5,134
	2,453	7,433

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.

24. 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, 2012 and 2011, all of the Company's sales were made to customers located in the United States. As at December 31, 2012 and 2011, all material non-current assets of the Company were located in Colombia.

25. SUBSEQUENT EVENT

On January 29, 2013, the Company announced that it had entered into an asset purchase agreement with Industrias Infinito S.A., a wholly-owned indirect subsidiary of Infinito Gold Ltd., to purchase certain mine processing equipment for the new 2,500 tonnes per day plant to be constructed at its Segovia Operations, for cash consideration of $4.3 million.