GRAN COLOMBIA GOLD CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
March 26, 2013

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Gran Colombia Gold Corp. (the "Company" or "Gran Colombia") should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2012. The financial information in this MD&A is derived from the Company's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. ***All figures contained herein are expressed in United States dollars ("USD"), except for production, share data or as otherwise stated.***

Additional information related to the Company is available on SEDAR at www.sedar.com or on the Company's website at www.grancolombiagold.com.

Highlights

- ***Production*:** Total gold production of 100,895 ounces for the year, a 10% increase over 2011. Fourth quarter production of 22,116 ounces of gold was adversely impacted by power disruptions at Segovia. Gran Colombia has taken steps to mitigate the power issues and gold production in 2013 has shown improvement over the fourth quarter. 2013 gold production is expected to increase to 110,000 ounces.
- ***Revenues*:** Revenue growth of 22% in 2012 to $168.2 million was driven by the 10% production growth, an increase in realized gold prices to an average of $1,664 per ounce for the year and having a full year of operations in 2012 at the Marmato underground mine acquired in June 2011.
- ***Costs:*** Total cash costs averaged $1,317 per ounce of gold in 2012, up from $1,254 per ounce in the prior year. Segovia's cash cost, averaging $1,341 per ounce in 2012, reflected the impact on artisanal mining costs of higher gold prices in 2012, the numerous challenges encountered during a year of extensive activity to double the Maria Dama plant's milling capacity to 1,000 tonnes per day ("tpd"), power disruptions in the fourth quarter and lower grades in the second half of the year as mine development had to be accelerated to meet the needs of the expanded milling operations. In 2013, the Company has taken steps to reduce production costs by $700,000 per month. This action together with the planned increase in gold production is expected to reduce cash cost to an average of $1,170 per ounce in 2013.
- ***G&A:*** In early 2013, the Company has taken steps to cut general and administrative ("G&A") spending by $150,000 per month, a significant contributor in the expected reduction in G&A from $16.5 million to 2012 to a level of $14.5 million in 2013.
- ***Exploration:*** Successful exploration campaigns at Segovia and Marmato increased total measured, indicated and inferred resources in early 2012 to 1.9 million ounces, 10.2 million ounces and 3.7 million ounces, respectively, and the discovery of a new deep zone mineralization at Marmato. The Company commenced a 20,000 meters drilling campaign in October 2012 to upgrade and expand its resources at Segovia. This program is expected to be completed in the second quarter of 2013.
- ***Financing:*** On October 30, 2012, the Company closed a $100 million, senior secured 10% gold-linked notes ("Gold Notes") financing to fund its planned expansion of the Segovia Operations.

Description of Business

The Company is incorporated under the laws of the Province of British Columbia and is engaged in the acquisition, exploration, development and operation of gold properties in Colombia. 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. On June 10, 2011, the Company completed its merger with Medoro Yukon Inc. (formerly Medoro Resources Ltd.) (“Medoro”) to create the largest underground gold and silver producer in Colombia with several underground mines and two processing plants in operation. In addition, the Company has commenced an expansion project at its Segovia Operations and will also be developing a large-scale, gold and silver mine at its Marmato Project.

Selected Financial Information

	Fourth Quarter		Year	
	2012	2011	2012	2011
Operating data:				
Gold produced (ounces)	22,116	26,979	100,895	81,480[3]
Gold sold (ounces)	21,198	29,185	98,439	83,809
Average realized gold price ($/oz sold)	$ 1,728	$ 1,687	$ 1,664	$ 1,596
Total cash costs ($/oz sold) [1]	1,534	1,113	1,317	1,254
Financial data:				
($000’s, except per share amounts)				
Total revenues	$ 37,758	$ 50,425	$ 168,243	$ 137,713
Gross margin [2]	472	13,157	18,201	11,453
Net (loss) income attributable to shareholders	(22,852)	2,402	(36,172)	(37,047)
Basic and diluted loss per share	(0.06)	0.01	(0.09)	(0.12)
Cash and cash equivalents	1,298	20,334	1,298	20,334
Cash in trust, current and non-current [4]	84,937	2,356	84,937	2,356
Total debt, including current portion	188,449	73,454	188,449	73,454

(1) “Total cash costs” are presented on a per ounce sold basis and represent consolidated averages for the Company from both the Segovia Operations and Marmato Underground mine. See “Additional Financial Measures”.

(2) “Gross margin” represents total revenues, net of operating costs, production taxes and depreciation, depletion and amortization.

(3) 91,419 ounces including production from Marmato Underground prior to the June 2011 merger with Medoro.

(4) 2012 includes $83.7 million set aside to pay capital costs of the Segovia expansion and interest on the Gold Notes until October 2014.

Resources

The following table summarizes the Company’s resources at the Segovia and Marmato properties:

	Measured			Indicated			Measured & Indicated			Inferred		
	Tonnes (M)	Grade (g/t)	Oz Au (000s)	Tonnes (M)	Grade (g/t)	Oz Au (000s)	Tonnes (M)	Grade (g/t)	Oz Au (000s)	Tonnes (M)	Grade (g/t)	Oz Au (000s)
Segovia Concession(1)	0.3	16.1	136	0.2	12.3	97	0.5	14.3	233	2.3	14.9	1,084
Carla Mine (2)	-	-	-	0.3	7.5	59	0.3	7.5	59	0.3	4.9	54
Segovia Operations	0.3	16.1	136	0.5	9.9	156	0.8	12.1	292	2.6	13.6	1,138
Marmato Project (3)	51.1	1.1	1,725	358.5	0.9	10,064	409.7	0.9	11,789	79.1	1.0	2,588
Total	51.4	1.1	1,861	359.0	0.9	10,220	410.5	0.9	12,081	81.7	1.4	3,726

(1) Source: NI 43-101 Technical Report on the Providencia, Las Verticales, Sandra K and El Silencio Veins at the Segovia Gold Project, Antioquia, Colombia.,dated April 15, 2012, prepared by SRK Consulting (UK) Limited.
(2) Source: NI 43-101 Technical Report on the Carla Project, Antioquia, Colombia, dated May 29, 2012, prepared by SRK Consulting (UK) Limited.
(3) Source: NI 43-101 Mineral Resource Estimate on the Marmato Project, Colombia dated August 7, 2012, prepared by SRK Consulting (UK) Limited

On October 10, 2012, the Company announced the results of its current deep zone drilling program at the Marmato Project. To date, five holes for a total of 4,295 meters have been drilled in the deep zone mineralization and the conclusion has produced a number of deep gold intersections, which extend mineralization trends to approximately 700 meters below the limit of the current preliminary pit outline and is open at depth. The Company's near-term focus at the Marmato Project is to complete and publish the prefeasibility study for the upgrade of its current underground operation, which the company expects to complete by June 2013.

Results of Operations and Overall Performance

Total gold production, driven by the expansion of mill capacity and processing at the Segovia Operations, increased by 10% in 2012 over 2011 as follows:

Gold production

	Fourth Quarter		Year	
(Ounces)	2012	2011	2012	2011
Segovia Operations				
Company-operated mines	7,767	9,415	29,821	39,575
Artisanal miners (1)	9,050	11,515	49,357	29,129
Total Segovia Operations	16,817	20,930	79,178	68,704
Marmato Underground	5,299	6,049	21,717	22,715(2)
Total	22,116	26,979	100,895	91,419(2)

(1) Represents gold produced from ore mined by small to medium scale mining contractors operating under contract within the Company's mining property.
(2) Includes 9,939 ounces of gold production prior to the merger with Medoro on June 10, 2011.

Quarterly production data by operation for 2012 and 2011 is as follows:

	2012				2011			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Segovia Operations								
Company-operated mines								
Tonnes milled	54,747	56,065	36,945	27,588	28,247	32,581	39,886	46,221
Head grade (g/t)	5.78	5.35	6.64	8.32	10.60	10.16	8.57	7.80
Mill recovery	76.3%	85.2%	86.3%	95.2%	97.8%	90.5%	91.1%	90.7%
Gold produced (ounces)	7,767	8,227	6,805	7,022	9,415	9,633	10,012	10,515
Artisanal miners								
Tonnes milled	23,560	25,933	16,858	18,724	17,893	10,540	9,122	4,037
Head grade (g/t)	15.66	18.32	29.44	23.44	22.49	22.28	26.80	38.04
Mill recovery	76.3%	84.4%	86.5%	96.5%	89.0%	82.2%	88.8%	89.8%
Gold produced (ounces)	9,050	12,887	13,805	13,615	11,515	6,203	6,979	4,432

	2012				2011			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Total Segovia Operations								
Tonnes milled	78,307	81,998	53,803	46,312	46,140	43,121	49,008	50,258
Tonnes per day (tpd)	851	891	591	515	502	469	539	558
Head grade (g/t)	8.75	9.46	13.78	14.43	15.21	13.12	11.96	10.23
Mill recovery	76.3%	84.7%	86.4%	96.1%	92.8%	87.0%	90.1%	90.4%
Gold produced (ounces)	16,817	21,114	20,610	20,637	20,930	15,836	16,991	14,947
Silver produced (ounces)	25,081	21,997	20,186	21,591	18,404	14,857	16,231	15,141
Marmato Underground								
Tonnes milled	65,328	70,351	67,382	65,076	67,310	66,781	55,231	61,231
Tonnes per day (tpd)	710	765	740	723	732	726	607	680
Head grade (g/t)	2.84	2.89	2.66	3.02	3.16	3.11	3.30	3.19
Mill recovery	88.8%	88.6%	86.8%	88.9%	88.5%	88.3%	89.1%	88.6%
Gold produced (ounces)	5,299	5,798	4,997	5,623	6,049	5,891	5,214	5,561
Silver produced (ounces)	7,918	9,684	8,016	9,558	9,838	8,820	7,990	8,468
Total Company								
Gold produced (ounces)	22,116	26,912	25,607	26,260	26,979	21,727	22,205	20,508
Silver produced (ounces)	32,999	31,682	28,202	31,149	28,242	23,677	24,221	23,609

At the Segovia Operations, the Company executed a number of initiatives in 2012 to upgrade the Maria Dama plant, successfully increasing the plant's capacity to about 1,300 tpd at the present time. These initiatives included the installation of a new crusher-jig-sifter system at the beginning of the year, a new 1,500 tpd ball mill that came on-line in mid-May and six (three dual) new flotation cells that were installed in the latter half of the year. Six new cyanidation tanks are also now in operation. In September 2012, the Company reached its objective of processing 1,000 tpd, double the historical processing rate at Maria Dama. Fourth quarter production at Segovia was primarily impacted by unexpected downtime caused by external power disruptions on almost a daily basis over a 25-day period, beginning in mid-November, that reduced throughput by about 40% during that period. The power supply situation in Segovia has since returned to normal and there have been no recurrences since that time. The Company has taken steps to resolve the issue, including establishing suitable notice periods with the local power supplier and signing a contract with Colombia-based Proelectrica & CIA S.C.A. ESP to provide backup diesel generating plants for the Company's current Segovia Operations, which the Company expects to be operational in the first half of 2013. During the first two months of 2013, an average of 858 tpd were processed at Maria Dama. In March 2013, the plant has been steadily processing ore at the rate of 1,000 tpd. Some minor capital investment (less than $1 million) is being undertaken in 2013 to improve mill uptime and to complete the Maria Dama plant expansion to a maximum capacity of 1,500 tpd.

Historically, grades at Segovia, one of the top ten producing mines by grade in the world(1), have averaged in the range of 12 to 14 g/t. However, in the third and fourth quarters of 2012, grades averaged approximately 9 g/t due to the temporary depletion of higher grade zones in the levels currently being mined at Providencia and El Silencio and, to a lesser extent, the processing of some lower grade stockpiles. Through mid-March 2013, head grades continue to average approximately 9 g/t as mine development activities progress. It is expected that head grades will begin to show some improvement in the second quarter, increasing to an average of about 10 g/t in the second half of 2013.

(1) Source: NRH Research, Global Gold Mines & Deposits 2012 (publicly traded companies with deposits greater than one million ounces in all resources categories)

At Marmato Underground, operations remained steady in 2012, with 732 tpd milled at an average head grade of 2.9 g/t and a mill recovery of 88.3%, resulting in total gold production of 21,717 ounces for the year. Gold production is expected to be 20,000 ounces in 2013 due to a crusher upgrade to be completed in the second quarter of 2013.

Revenues

	Fourth Quarter		Year	
	2012	2011	2012	2011
Gold				
Ounces sold	21,198	29,185	98,439	83,809
Average realized price ($/oz)	1,728	1,687	1,664	1,596
Silver				
Ounces sold	32,862	27,892	123,938	83,649
Average realized price ($/oz)	30	30	30	32
Revenues				
Gold	$ 36,622	$ 49,245	$ 163,835	$ 133,775
Silver	974	837	3,745	2,671
Refining and processing royalties	162	343	663	1,267
	$ 37,758	$ 50,425	$ 168,243	$ 137,713

Revenues of $37.8 million in the fourth quarter of 2012, impacted by the lower gold production at Segovia, benefitted from the positive gold price environment as realized prices averaged $1,728 per ounce of gold. This brought total revenues for the year to $168.2 million, a 22% increase over 2011 due to the 10% increase in gold production, a 4% increase in average realized gold prices to $1,664 per ounce and a full year of operations at the Marmato underground mine acquired in June 2011. In 2013, gold prices have continued to show volatility, having fallen to about the $1,600 per ounce level. This will have an impact on expected revenues and cash flows in 2013. To support the Company's cash generation in this gold price environment, the Company implemented a cost reduction program in early 2013 that has already reduced spending at the Segovia Operations and on G&A by a total of $850,000 per month or about $100 per ounce at current production levels. The Company is continuing to review opportunities for further cost savings.

In the latter part of 2011, the Company had used a portion of the proceeds from its silver sales to fund the purchase for cancellation of a portion of its silver-linked notes ("Silver Notes") on the open market through a normal course issuer bid ("Silver Notes Bid") that expired at the end of August 2012. In 2012, the Company did not make any purchases under the Silver Notes Bid. The Company is considering a renewal of the Silver Notes Bid in 2013 as cash generation improves with the intention of using proceeds from its silver sales to fund additional purchases of the Silver Notes on the open market for cancellation.

Refining and processing revenues include charges to third parties for refining materials at the Company's smelter operation in Medellin, Colombia. In 2011, these revenues also included royalties at the El Zancudo property related to the processing of slag that has now been exhausted.

Cost of sales

	Fourth Quarter 2012	Fourth Quarter 2011	Year 2012	Year 2011
Per ounce of gold sold [(1)]				
Total cash cost				
Operations costs	$ 1,491	$ 1,059	$ 1,276	$ 1,226
Production taxes	89	83	79	60
By-product credits (silver)	(46)	(29)	(38)	(32)
Total cash cost	1,534	1,113	1,317	1,254
Depreciation, depletion and amortization	179	135	169	216
Total production cost	$ 1,713	$ 1,248	$ 1,486	$ 1,470

(1) See "Additional Financial Measures".

The cash cost per ounce sold from the Company's mining operations on a quarterly basis in 2012 and 2011 was as follows:

	2012				2011			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Segovia Operations	$ 1,604	$ 1,288	$ 1,320	$ 1,202	$ 1,128	$ 1,423	$ 1,427	$ 1,215
Marmato Underground	1,273	1,174	1,288	1,184	1,072	1,123	1,068	-
Company average	$ 1,534	$ 1,261	$ 1,313	$ 1,199	$ 1,113	$ 1,340	$ 1,409	$ 1,215

At the Segovia Operations, cash costs averaged $1,341 per ounce in 2012, up from $1,288 per ounce in 2011, reflecting the impact on artisanal mining costs of higher gold prices in 2012 and the impact on production of lower head grades in the second half and of external power disruptions in the fourth quarter. In 2012, 62% of the Company's gold production at Segovia came from ore supplied through the Company's contractual mining contracts with artisanal miners operating within the Company's mining property. Under these contracts, the Company pays the artisanal miners for their services under a formula tied to the price of gold. As a result, the higher realized gold prices in 2012 increased Segovia's cash cost per ounce by approximately $25 per ounce related to the ore supplied by the artisanal miners. In addition, Segovia's local production tax increased by about $3 per ounce as a result of the higher gold prices. The balance of the increase in Segovia's cash cost per ounce in 2012 relative to the prior year can be attributed to the impact on production of lower head grades and mill recoveries in the second half of the year, partially reduced by some savings in mine site overheads in 2012.

Segovia's cash cost increased significantly in the fourth quarter of 2012 to $1,604 per ounce, primarily reflecting the impact on production of the unexpected power interruptions at the local utility provider's substation in addition to the lower head grades and mill recovery in the fourth quarter.

The Company is making progress in its efforts to reduce cash costs at the Segovia Operations, even though this is not entirely visible as a result of the lower head grades encountered in the second half of 2012. Productivity improvements at the Company-operated mines, which are largely fixed cost in nature and typically contribute approximately two-thirds of total tonnes milled and one-third of gold production from the Segovia Operations, were beginning to be realized in the second half of 2012. As tonnes per day supplied from the Company-operated mines has doubled between the first quarter and second half of 2012 to utilize the increased plant capacity at Maria Dama, mining costs (which represent about 80% of total cash cost per ounce) on a per tonne basis have decreased 37% from $277 per tonne in the first quarter to an average of $174 per tonne in the second half of 2012. As mine development improves head grades in 2013, this improvement in mining cost per tonne will become more evident in the cash cost per ounce. In addition, the Company initiated a cost reduction program in early 2013 that has cut $700,000 per month from its production costs through direct labour reductions and redesign of shifts. These actions are expected to reduce the cash cost at Segovia in 2013 to an average of about $1,170 per ounce. The introduction of modern, mechanized mining equipment and techniques in the planned expansion of the Segovia Operations will be a key enabler to further reducing cash cost to $800 to $900 per ounce after the expansion project is completed by the third quarter of 2014.

At Marmato Underground, the cash cost averaged $1,227 per ounce in 2012, up from $1,093 per ounce last year due mainly to lower grades this year.

Social contributions

	Fourth Quarter		Year	
	2012	2011	2012	2011
Segovia social contributions	$ 580	$ 999	$ 3,276	$ 2,313
Donation for Segovia schooling costs	-	-	395	-
Marmato social projects	-	2,154	-	2,154
Total social contributions	$ 580	$ 3,153	$ 3,671	$ 4,467

Pursuant to the terms of the acquisition of the Segovia Operations in 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 from the Segovia Operations. The contribution rate is tied through a formula to 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 to recover advances made to the pension plan during the Frontino liquidation until such advances are recovered. The Company's production at the Segovia operations surpassed the 15,000 ounce threshold in each quarter of 2012 and as such, the Company was required to make social contributions of approximately $42 per ounce of production at Segovia in 2012 or $3.3 million in aggregate, of which $2.4 million was applied to recover advances to the pension plan. At December 31, 2012, the Company has $2.2 million of advances remaining to be recovered through reduction in future social contributions. In 2011, the 15,000 ounce threshold was not reached in the first quarter and therefore the social contributions of $2.3 million for 2011 related only to production in the final three quarters of the year.

In 2012, the Company made a $0.4 million donation to a local charitable foundation to help cover the costs of schooling for children in the Segovia District.

In 2011, as part of the Company's commitment to community initiatives in the Town of Marmato, it contributed approximately $2.2 million to the town and its surrounding area, to be used to fund Phase II construction of the El Llano Hospital, the construction of an administrative centre and other community projects.

Other items

	Fourth Quarter 2012	Fourth Quarter 2011	Year 2012	Year 2011
G&A expenses	$ 4,559	$ 5,409	$ 16,497	$ 15,580
Acquisition costs	2,916	(51)	3,093	4,953
Impairment of fixed, exploration and evaluation assets	505	2,286	4,084	2,286
Share-based compensation	-	35	105	8,168
Equity tax	-	-	-	12,605
Finance costs (net of finance income)	11,509	2,238	18,967	9,961
Gain (loss) on financial instruments	(1,402)	(90)	(7,161)	12,651

G&A expenses amounted to $4.6 million for the fourth quarter of 2012 bringing the total for the year to $16.5 million. G&A had increased in the second half of 2011 following the merger with Medoro and on an annualized basis, 2011's post-merger G&A would have represented a run rate of almost $20 million. However, the Company took a number of steps following the merger to reduce G&A by integrating the personnel, offices and other expenses of the combined organization. In early 2013, the Company has taken further steps as part of its cost reduction program to cut G&A spending by $150,000 per month, including a company-wide 10% salary reduction. The Company is also commencing a project in 2013 to streamline its corporate structure to eliminate overhead costs associated with non-operating subsidiaries inherited through acquisitions. These cost savings will be a significant contributor in the reduction in G&A from $16.5 million to 2012 to an expected level of $14.5 million in 2013.

The Company recorded acquisition costs in 2012 of $3.1 million associated with post-closing matters related to the 2010 acquisition of the Segovia Operations assets. These costs include a one-time non-cash charge of $2.7 million related to the December 31, 2012 actuarial valuation of the Company's obligation to fund the ongoing health plan contributions of the former Frontino pension plan participants. 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. In 2011, the Company had incurred a total of $5.0 million of acquisition costs associated with the Medoro merger, including financial advisory, legal and other professional fees and listing fees.

In 2012, the Company recognized impairment charges in the amount of $4.1 million, including a $3.4 million reduction in the carrying value of its Mazamorras exploration property to its estimated fair value and $0.7 million for certain equipment disposed at Segovia. In 2011, the Company recorded an impairment change in the amount of $2.3 million after determining through its exploration program that it would no longer proceed with the Concepcion Project.

The Company recorded share-based compensation expense of $0.1 million (approximately CA$0.15 per option) in 2012 representing the fair value of 720,500 stock options granted to employees and consultants to the Company. In 2011, the Company recorded share-based compensation expense of $8.2 million (approximately CA$0.58 per option) in connection with the grant of 14.1 million stock options that were granted, primarily following the Medoro merger transaction. The fair values were determined using a Black-Scholes option pricing model.

In 2011, the Company recorded a $12.6 million charge equal to the present value of a 6% equity tax imposed on Colombian operations as of January 1, 2011. The equity tax is being paid by the Company in installments over the four-year period from 2011 to 2014.

Finance costs, net of finance income, increased to $19.0 million in 2012 compared with $10.0 million in 2011. Finance costs comprise three general categories as follows:

- Interest expense - $8.8 million in 2012 compared with $2.5 million in 2011. The Company has seen an increase in interest expense in 2012 over the prior year as a result of (i) borrowings under the 10% Gold Notes issued in October 2012 (of which $1.2 million was capitalized in 2012), (ii) the 5% Silver Notes issued in August 2011, (iii) borrowings under term loans and working capital credit facilities with Colombian banks and (iv) interest being paid on delayed installments related to amounts payable for mining titles and compensation agreements at the Marmato Project. Interest on the Gold Notes has been pre-funded for the first two years with proceeds that have been set aside in escrow to meet the monthly payment obligations. The interest on all other borrowings is being funded from operating cash flow.
- Transaction costs and other financing fees - $7.7 million in 2012 compared with $5.2 million in 2011. On October 30, 2012, the Company closed the $100 million Gold Notes financing to fund its planned expansion of the Segovia Operations. Financing costs in 2012 include $7.2 million associated with this transaction and $0.5 million related to other potential financings that were pursued for the Segovia expansion but were not completed. In 2011, the Company incurred transaction costs of $5.2 million related to the $80 million Silver Notes financing.
- Non-cash accretion of financial obligations - $2.7 million in 2012 compared with $2.2 million in 2011. The Company has financial obligations associated with its funding of health plan contributions at Segovia, decommissioning liabilities at Segovia and Marmato Underground, and its equity tax payable, all of which will be paid over time and therefore are recorded at the present value of the future obligation. Non-cash finance costs are recognized as these liabilities are accreted with the passage of time. In 2012, the Company recorded the present value of its estimated decommissioning liability for the Segovia Operations following the filing of its five-year environmental management plan with the local authority, resulting in the increase in accretion expense in 2012 over 2011.

The loss on financial instruments of $7.2 million in 2012 includes a $5.0 million mark-to-market loss on the Company's investments in the shares of Tolima Gold Inc. and Cayden Resources Inc., a $2.7 million mark-to-market loss on the Silver Notes and a $0.4 million mark-to-market gain on the Gold Notes. In 2011, the $12.7 million gain on financial instruments reflected a $13.7 million mark-to-market gain on the Silver Notes.

The Company reported a net loss attributable to shareholders for the fourth quarter of 2012 of $22.9 million, or $0.06 per share, compared with net earnings of $2.4 million, or $0.01 per share, in the fourth quarter last year. 2012's fourth quarter results were predominantly adversely impacted by the lower production and higher cash costs at Segovia, the Gold Note financing costs and the one-time actuarial related acquisition costs.

For the full year 2012, the net loss attributable to shareholders amounted to $36.2 million, or $0.09 per share, compared with a net loss of $37.0 million, or $0.12 per share, last year.

Summary of Quarterly Results

$000's except ounce, per ounce and per share data	2012 4th Qtr	2012 3rd Qtr	2012 2nd Qtr	2012 1st Qtr(4)	2011 4th Qtr(4)	2011 3rd Qtr(4)	2011 2nd Qtr(3)	2011 1st Qtr
Operating data:								
Gold produced (ounces)	22,116	26,912	25,607	26,260	26,979	21,727	17,827	14,947
Gold sold (ounces)	21,198	28,009	24,418	24,814	29,185	22,317	17,533	14,774
Average realized gold price (1)	$ 1,728	$ 1,642	$ 1,623	$ 1,676	$ 1,687	$ 1,684	$ 1,529	$ 1,363
Silver sold (ounces)	32,862	30,725	30,746	29,605	27,892	23,423	17,131	15,203
Averaged realized silver price (1)	30	31	29	32	30	36	33	28
Total cash costs (1, 2)	1,534	1,261	1,313	1,199	1,113	1,340	1,409	1,215
Total production cost (1, 2)	1,713	1,429	1,480	1,363	1,248	1,598	1,677	1,468
Financial data:								
Revenues								
Gold	$ 36,622	$ 45,983	$ 39,630	$ 41,600	$ 49,245	$ 37,590	$ 26,802	$ 20,138
Silver	974	943	891	937	837	844	571	419
Other	162	144	216	141	343	345	352	227
Total	37,758	47,070	40,737	42,678	50,425	38,779	27,725	20,784
Operating costs	33,495	36,277	32,945	30,683	33,320	30,755	25,284	18,373
DD&A	3,791	4,692	4,085	4,074	3,948	5,758	4,688	3,731
Gross margin	472	6,101	3,707	7,921	13,157	1,862	(2,247)	(1,320)
G&A	4,559	4,149	4,248	3,541	5,409	4,927	2,930	2,314
Acquisition costs	2,916	177	-	-	(51)	187	4,817	-
Impairment writedowns	505	169	3,410	-	2,286	-	-	-
Share-based compensation	-	-	61	44	35	7,420	41	672
Social contributions	580	1,381	847	863	3,153	638	675	-
Income (loss) from operations	(8,088)	225	(4,859)	3,473	2,325	(11,310)	(10,710)	(4,306)
Other (expense) income	(15,225)	(679)	(8,676)	(5,346)	(762)	7,355	(1,233)	(13,070)
(Loss) income before taxes	(23,313)	(454)	(13,535)	(1,873)	1,563	(3,955)	(11,943)	(17,376)
Income tax provision	580	(184)	(82)	2,938	1,043	(4,670)	(730)	(594)
Net (loss) income	(22,733)	(638)	(13,617)	1,065	2,606	(8,625)	(12,673)	(17,970)
Attributable to shareholders	(22,852)	(724)	(13,724)	1,128	2,402	(8,873)	(12,620)	(17,956)
Basic and diluted (loss) income per share	(0.06)	0.00	(0.04)	0.00	0.01	(0.02)	(0.04)	(0.08)

(1) Per ounce of gold sold.
(2) See "Additional Financial Measures".
(3) Completed the acquisition of Medoro effective June 10, 2011.
(4) The income tax provisions for the third and fourth quarters of 2011 and the first quarter of 2012 have been adjusted retrospectively to reflect the changes to the purchase price allocation for the acquired assets of Medoro as described in Note 5 to the consolidated financial statements for the year ended December 31, 2012.

Total cash costs and gross margin for the fourth quarter of 2012 were adversely impacted by the lower production at the Segovia Operations due to unexpected external power disruptions and lower grades. The net loss for the fourth quarter of 2012 also includes $7.2 million of transaction costs related to the Gold Notes financing, a one-time $2.7 million actuarial charge related to the 2010 acquisition of the Segovia Operations, a $2.3 million foreign exchange loss and a $1.4 million loss on financial instruments.

The net loss for the second quarter of 2012 includes a $3.4 million impairment charge related to the Mazamorras exploration property, $2.9 million of fair value losses on financial instruments and a $3.3 million foreign exchange loss.

The net loss for the second quarter of 2011 includes $4.8 million of costs associated with the acquisition of Medoro.

The net loss for the first quarter of 2011 includes a one-time charge of $12.6 million reflecting the Company's provision for the 2011-2014 equity tax levied on all companies in Colombia.

Liquidity and Capital Resources

At December 31, 2012, the Company's cash position was $1.3 million. During the fourth quarter of 2012, the Company raised $92.3 million, net of transaction costs, through the Gold Notes financing to fund the expansion of the Segovia Operations over the next approximately 18 months. At December 31, 2012, $83.7 million of these proceeds are held in trust accounts, $18.3 million to fund the monthly interest payments on the Gold Notes over the next 22 months and $65.4 million to fund the new 2,500 tpd plant and mine development program at Segovia. The Segovia expansion project, to be completed by the third quarter of 2014, is expected to increase production to 200,000 ounces annually and to reduce cash costs to between $800 to $900 per ounce.

At December 31, 2012, the Company has a working capital deficit, excluding $70.0 million of cash in trust from the Gold Notes, of approximately $34.2 million. Of this deficit, $14.7 million pertains to amounts payable for acquisitions of exploration and evaluation assets, essentially mining titles and compensation agreements at the Marmato Project. In addition, the Company has $5.6 million included in accounts payable and accrued liabilities related to the prefeasibility study at the Marmato Project. The Company is currently in the process of finalizing the prefeasibility study to upgrade and expand its current underground mining operations at Marmato and expects to publish the technical report by June 2013. Concurrent with this activity, the Company is evaluating its project financing options. Consequently, the Company has put payment of the foregoing payables related to the Marmato Project on hold, paying interest only on past due installments on mining titles and compensation agreements. The balance of the adjusted working capital deficit of approximately $13.9 million, which includes scheduled payments for the current portion of long-term debt of $9.3 million and equity taxes of $4.8 million, will be serviced in 2013 with cash flow from operations. The Company took steps in early 2013 to improve its internal cash generation, including the previously described cost reductions of $850,000 per month ($10 million annualized) and limiting its sustaining capital expenditures in 2013 to $4.5 million. Combined with planned 9% increase in gold production and collection of past due VAT refunds (as described below), the Company expects to improve its working capital position in 2013.

Operating activities

During 2012, operating activities provided net cash of $4.2 million. Production contributed $34.8 million of operating cash flow (revenues net of operating costs) that was used to fund G&A expenses, social contributions, interest payments, income taxes and equity tax installments.

The Company managed its accounts payable in 2012 to offset the adverse impact on working capital of the delayed collection of VAT refunds. The Company had previously disclosed that it had been experiencing difficulty collecting VAT refund claims from the local Colombian tax authority. At December

31, 2012, accounts receivable included $17.6 million of VAT refunds, $11.8 million of which was past due. During the first two months of 2013, the Company collected $10.4 million of these past due refunds, $5.1 million of which was used to reduce the equity tax payable at December 31, 2012, $0.5 million was used to repay a portion of a factoring loan (as described below) and the balance was used to reduce past due accounts payable. A further approximately $5.2 million related to the final four months of 2012 is expected to be collected by May 2013. Through the Company's extensive work with the local Colombian tax authority in 2012, it appears the VAT refund process has been normalized for claims starting in 2013, paving the way to more timely collections going forward and reduced pressure on the Company's working capital and operating cash flow. To help ease some of the pressure this situation had placed on the Company's short-term liquidity, the Company arranged a $2.25 million factoring loan in October 2012 against a portion of its VAT receivable. In February 2013, $0.5 million of this factoring loan was repaid and the balance will be repaid from the VAT refunds expected to be collected by May. In addition, $2.0 million of the VAT refunds to be received by May will be set aside to meet the semi-annual interest payment on the Silver Notes to be made on June 30, 2013.

Investing activities

Cash used in investing activities in 2012 amounted to $49.7 million. Significant items included:

- $21.3 million on capital expenditures. In 2012 the Company spent $9.0 million on the upgrade of the existing Maria Dama plant at Segovia, including replacement of the crusher-jig-sifter system, a new 1,500 tpd ball mill, six new flotation cells and four new cyanidation tanks. In addition, the Company spent $2.3 million on mine development, $3.0 million on its exploration program, $0.6 million on tailings storage facilities and $2.3 million on other equipment and facilities at its existing Segovia Operations. Capital expenditures incurred in 2012, funded by the proceeds of the Gold Notes and related to the design of the new expansion project at Segovia, amounted to $2.8 million. At Marmato Underground, the sustaining capital program in 2012 amounted to $1.3 million.
- $29.1 million of expenditures on the Company's exploration and evaluation assets. These expenditures include $11.3 million paid towards the acquisition of additional mining titles and artisanal miner compensation agreements related to the Marmato Project, $14.0 million associated with the prefeasibility study, drilling, social and other activities at the Marmato Project and $3.8 million of capitalized exploration related to the Carla Mine, El Zancudo and the Mazamorras Project.
- A net recovery of $1.5 million in 2012 of the previous advances made by Gran Colombia to fund the monthly pension plan payments to retirees during the transition period following the acquisition of the Segovia Operations. The Company made additional advances of $0.9 million in 2012 that will be recovered through future reductions in social contributions payable.
- $0.5 million of proceeds in 2012 from the sale of all of the Company's shareholdings in Cayden Resources Inc.
- $1.1 million paid in 2012 to fund the assumed obligation for the monthly health care premiums of the retirees at the Segovia Operations.

In 2011, Gran Colombia commenced work on a prefeasibility study of the Marmato Project to examine a number of feasible development options for mining, processing and mine waste management to provide the foundation for decision-making for the optimum development of the project. The options included stand-alone open pit mining, an expansion and upgrade of the existing underground mine and a phased combination of both open pit and underground mining. Drilling in 2012 also discovered a new deep zone mineralization that is open at depth with increasing grades. The Company is currently in the process of finalizing the prefeasibility study focused on the option to upgrade and expand its current underground mining operations at Marmato and expects to publish the technical report by June 2013. Roscoe Postle and Associates have been engaged to certify the technical report.

In July 2012, the Company entered into a sale agreement to dispose of its 100% interest in the Mazamorras Project for total consideration of $5.5 million, including the assumption of certain remaining acquisition obligations related to the property. The purchaser was unable to close the transaction in September 2012 as per the sale agreement. Since then, the Company has been engaged in a process to sell the Mazamorras Project. Several potential purchasers have conducted due diligence activities and the process remains active at the present time.

Financing activities

Colombian Debt Facilities

The Company has entered into several financial arrangements with local Colombian banks to fund its cash management activities and investments in its capital projects. These arrangements include:

- The Company's refinery operation has unsecured working capital credit facilities with Colombian banks comprising a total of $8.5 million under which it may borrow funds for 30 to 120 days. At December 31, 2012, $6.7 million was drawn under these credit facilities.
- The Company's Segovia Operations have a COP 15 billion (approximately $8.5 million) term loan facility that it entered into in August 2012, the proceeds of which were used toward capital expenditures and working capital purposes. The loan will be paid in eight quarterly installments commencing in April 2013 and ending in January 2015.
- The Company's Segovia Operations also have a three-year term loan with a Colombian bank that it had entered into in April 2011. At December 31, 2012, the balance outstanding under this term loan was approximately $3.4 million.
- In March 2012, the Company entered into a two-year term loan with a Colombian bank in the amount of COP 8.0 billion (approximately $4.5 million), the proceeds of which were used to fund a portion of the Company's commitments with respect to mining title contracts and artisanal miner compensation agreements at the Marmato Project. At December 31, 2012, the balance outstanding under this term loan was approximately $2.8 million.
- In August 2012, the Company entered a two-year term loan with a Colombian bank in the amount of COP 1.0 billion (approximately $0.6 million) to fund working capital at the Marmato underground mine. At December 31, 2012, the balance outstanding under this term loan was approximately $0.5 million.
- In October 2012, the Company entered into a $2.25 million factoring loan secured by a portion of the Company's VAT receivables. In February 2013, $0.5 million of this loan was repaid and it is expected that the balance will be repaid in May 2013 upon collection of certain of the Company's VAT receivables.

The Company may seek to implement additional working capital lines and other similar banking arrangements with local financial institutions in Colombia to facilitate its cash management activities, subject to the permitted indebtedness covenants of the Gold Notes issued by the Company at the end of October 2012. The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objective of growing production and expanding its resources and to respond to changes in economic conditions.

10% Senior Secured Gold Notes due October 2017

On October 30, 2012, the Company closed an offering of $100 million aggregate principle amount of units (the "Offering"). Each unit of the Offering consisted of one $1,000 face amount secured, 10% Gold Note and 250 common share purchase warrants. 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 Company will place aside in a segregated gold account approximately 8.3% of the Implied Gold Ounces for the benefit of the holders of the Gold Notes on or before the last day of each three-month period beginning on the 25th month after the closing date until the Maturity Date.

Each warrant will entitle the holder to purchase one of the Company's common shares at a price of CA$0.75 and will expire on October 30, 2017.

The net proceeds of the offering, after deduction of transaction costs, 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 for the planned expansion of the Company’s Segovia Operations, including the construction of a 2,500 tpd processing plant, the development of a new mechanized underground mine, tailings storage facilities and acquisition of mining and other equipment, as required. The 18-month project plan has been reviewed and optimized by the new project team to include new access roads and declines/shafts compared to the original 3.7 kilometer ramp design, resulting in significant cost savings and reducing the estimated total cost of the project from $90 million to $84 million. 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 as working capital advances against past due VAT receivables at the Segovia Operations. These working capital advances will be returned to the segregated account as VAT refunds are collected in 2013. The Company is determining if equipment leasing can be used to fund any portion of the capital cost of the expansion project. The project team is also continuing to review the project budget for further opportunities to reduce capital costs. Segovia's operating cash flow in 2014 will be sufficient to fund any balance of the capital budget in excess the segregated account funds.

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.

5% Senior Unsecured Silver Notes due August 2018

In August 2011, the Company issued $80 million ($74.8 million net of transaction costs) of senior unsecured 5% Silver Notes (TSX: GCM.NT.U), the proceeds of which were used by the Company for among other things, the development of the Marmato Project and for general corporate purposes including improvements at its operating properties. Pursuant to a normal course issuer bid, the Company used proceeds from its silver sales in 2011 to purchase for cancellation a total of 1,368 Silver Notes at an average price of $953.38 per Silver Note on the open market. There are currently 78,632 Silver Notes issued and outstanding. The Silver Notes have a seven-year term and principal repayments, linked to the price of silver, do not commence until August 2015. The Silver Notes provide investors with exposure to silver at a deep discount to the current spot price for silver as each Silver Note is equivalent to 66.7 ounces of silver based on a notional price of $15 per ounce. Current spot prices for silver are approximately $29 per ounce. At the time of repayment, investors will receive a payment based on the greater of the financial equivalent of the underlying silver ounces or the principal amount of the Silver Notes, essentially giving investors a call on silver at $15 per ounce.

2011 Common Shares Bid

On September 27, 2011, the Company announced that it had filed a Notice of Intention to commence a normal course issuer bid (the "Common Shares Bid") with the TSX for its common shares listed on the TSX. In 2011, the Company purchased for cancellation a total of 7,703,000 common shares at an average price of CA$0.65 per common share. No further purchases were made under the Common Shares Bid from January 1, 2012 until its expiry on September 27, 2012.

Outstanding Shares, Stock Options, Compensation Options and Warrants

At March 26, 2013, the Company had the following securities issued and outstanding:

Securities	Number	Exercise price per unit	Expiry date
Common shares (TSX: GCM)	381,984,916		
Stock options	9,487,500	CA$1.60	August 20, 2015
	25,000	CA$1.60	October 14, 2015
	112,500	CA$1.83	January 19, 2016
	50,000	CA$1.76	January 27, 2016
	50,000	CA$1.60	May 11, 2016
	12,471,923	CA$0.73	September 12, 2016
	100,000	CA$0.73	September 21, 2016
	200,000	CA$0.54	September 29, 2016
	65,000	CA$0.62	October 24, 2016
	175,000	CA$0.43	January 12, 2017
	365,500	CA$0.73	April 4, 2017
	23,102,423		
	8,102,996 (1)	CA$1.00 to CA$2.13	April 2, 2013 to May 11, 2016

Securities	Number	Exercise price per unit	Expiry date
Warrants			
TSX: GCM.WT	157,973,452	CA$2.60	August 24, 2015
TSX: GCM.WT.A	3,722,333 (2)	US$3.75	June 18, 2013
Unlisted	25,000,000	CA$0.17	October 30, 2017

(1) Represent exchanged Gran Colombia options issued to Medoro option holders in connection with the merger in June 2011. Upon exercise, entitles the option holder to receive 1.2 common shares and 0.5 share purchase warrants (GCM.WT) of the Company. A total of 12,976,765 common shares have been reserved for issuance in connection with the exchanged Gran Colombia options.

(2) Represent exchanged Special Gran Colombia warrants to be issued to Medoro warrant holders in connection with the merger in June 2011. A total of 2,194,539 common shares have been reserved for issuance in connection with the exchanged Special Gran Colombia warrants.

Recent Accounting Pronouncements

The following new and revised accounting pronouncements have been issued but are not yet effective. The Company has not early adopted any of these standards.

Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard: (a) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (b) defines the principle of control, and establishes control as the basis for consolidation; (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (d) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and 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 other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present 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.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments, bank indebtedness, amounts payable for exploration and evaluation assets accounts payable and accrued liabilities and long-term debt. The fair value of these financial instruments approximates their carrying values.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Risks and Uncertainties

Exploration, development and mining of precious metals involve numerous inherent risks as a result of the economic conditions in the various areas of operation. As such, the Company is subject to several financial, operational and political risks that could have a significant impact on its profitability and levels of operating cash flows. Although the Company assesses and minimizes these risks by applying high operating standards, including careful management and planning of its facilities, hiring qualified personnel and developing their skills through training and development programs, these risks cannot be eliminated. Such risks include:

- Metal price volatility;
- Future production rates;
- Financing risks;
- History of losses;
- Going concern;

- Current global markets and economic conditions;
- Exploration, development and operations;
- Risks with title to mineral properties;
- Changes in environmental laws;
- Resettlement of the town of Marmato;
- Liquidity risks;
- Mining risks and insurance risks;
- Indebtedness of the Company;
- Servicing indebtedness;
- Additional indebtedness;
- Indebtedness – restrictive covenants;
- Risks related to the Silver-Linked Notes;
    - *Ranking;*
    - *Absence of covenant protection;*
    - *Market for the Silver-Linked Notes;*
- Risks related to the Gold-Linked Notes;
    - *Ranking;*
    - *Collateral;*
    - *Voiding the Gold-Linked Notes or guarantees;*
    - *Bankruptcy and insolvency laws;*
    - *Subordinated collateral;*
    - *Reduction of pool of assets securing the Gold-Linked Notes;*
    - *Release of collateral;*
    - *Perfecting security interests;*
    - *Financing the change of control provision;*
    - *Restrictions on transfer;*
    - *No public market for Gold-Linked Notes;*
    - *No public market for the warrants;*
- Taxation – CRA review;
- Interest rate risk;
- Price risk;
- Integration risks;
- Regulatory approvals;
- Environmental permits;
- Changes in legislation;
- Corruption;
- Labour matters and employee relations;
- Economic and political factors;
    - *Colombia;*
        - *Emerging market country;*
        - *Economic and political developments;*
        - *Exchange controls;*
        - *Decline in economic growth;*
        - *Seizure or expropriation of assets;*
        - *Local legal and regulatory systems;*
        - *Colombia – Less developed country;*
        - *Sanctions by the United States Government;*
        - *Guerilla and other Criminal activity;*
    - *Venezuela;*
- Operating history in Colombia;
- Currency risk;
- Governmental regulation and permitting;
- Asset retirement obligation;

- Shortage of experienced personnel and equipment;
- Potential conflicts of interest;
- Possible volatility of stock price;
- Repatriation of earnings;
- Enforcement of civil liabilities;
- Forward-looking information may prove inaccurate;
- Infrastructure;
- Joint ventures;
- Competition;
- Dividends; and,
- Other risks.

If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently aware or which it considers to be material in relation to the Company's business actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the prices of the Company's securities could decline and investors may lose all or part of their investment.

Readers are encouraged to read and consider the risk factors more specifically described in the Company's Annual Information Form dated as of March 26, 2013 which is available at www.sedar.com. Such risk factors could materially affect the future operating results of the Company and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

Critical Accounting Policies and Estimates

A detailed summary of all the Company's significant accounting policies, judgments, estimates and assumptions is included in Notes 3 and 4 to the consolidated financial statements for the year ended December 31, 2012.

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.

Additional Financial Measures

The Company has included additional financial performance measures, such as total cash costs, total production costs (by-product) per gold ounce, and operating earnings, throughout this MD&A. The Company reports total cash and production costs on a sales basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company’s performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. *“Total cash cost per ounce”* on a by-product basis is calculated by deducting by-product silver sales revenues from operations cash costs, production taxes and social contribution costs, where applicable, and dividing the sum by the number of gold ounces sold. Operations costs include mining, milling, refining and mine site administration costs. *“Total production costs per ounce”* on a by-product basis are calculated by adding depreciation and depletion to total cash costs and dividing the sum by the number of ounces of gold sold. Operating earnings is a non-IFRS measure defined as revenues, less costs of sales (excluding depreciation, depletion and amortization).

Management’s Report on Internal Control over Financial Reporting

Disclosure controls and procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures and has evaluated the design and operating effectiveness of the Company’s disclosure controls and procedures and has concluded that they were effective as at December 31, 2012.

Internal control over financial reporting

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud. Management has used the Committee of Sponsoring Organizations of the Treadway Commission framework in order to assess the effectiveness of the design of the Company’s internal control over financial reporting.

Management conducted an evaluation of the effectiveness of the design of internal control over financial reporting and concluded that it was effective as at December 31, 2012.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In 2013, the Company will focus on cost reductions and limiting capital investments to support an expected production level of 110,000 ounces of gold. Production at its Segovia Operations is expected to reach 90,000 ounces of gold in 2013 and production from the underground mine at Marmato is expected to total approximately 20,000 ounces of gold. In January 2013, management embarked on a comprehensive review of its operations to identify and implement $12 million in annual cost savings. To date, cost actions taken will realize approximately $850,000 per month ($10 million annualized) of savings starting by March 2013. Further reductions have been identified and are being evaluated. Management is confident it will reach its cost reductions target.

In 2013, the Company is adopting an "all-in sustaining cash cost" measure that the Company believes more fully defines the total costs associated with producing gold. All-in sustaining cash costs include cash costs (on a by-product credit basis), sustaining capital, corporate G&A and exploration expense. As the measure seeks to reflect the full cost of gold production from current operations, new project capital is not included in the calculation. For 2013, the Company expects its all-in sustaining cash cost to be approximately $1,380 per ounce of gold. This comprises cash cost of approximately $1,170 per ounce, G&A of $130 per ounce, sustaining capital of $40 per ounce and Marmato Project ongoing costs of $40 per ounce.

Sustaining capital expenditures for 2013 will total approximately $4.5 million. These will be funded internally from unrestricted cash balances and operating cash flow and will focus on sustaining capital at the two operating mines, including the completion of Maria Dama mill upgrades, the environmental program at Segovia and a crusher upgrade at the Marmato underground mining operation. An additional $4.5 million is expected to be spent on social and other ongoing programs at the Marmato project site.

Capital expenditures and exploration in support of the expansion of the Segovia Operations (also referred to as the "Pampa Verde Project"), currently budgeted to total $84 million over the next 18 months, will be funded separately from the proceeds generated by the Gold Notes and are not included in all-in sustaining cash cost.

Cautionary Note Regarding Forward Looking Statements

Certain statements in this MD&A constitute forward-looking information. Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled", "positioned", "goal", "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Such forward-looking statements, including but not limited to statements with respect to anticipated business plans or strategies involve known and unknown risks, uncertainties and other factors which may cause the actual actions, events and results to be materially different from estimated actions, events or results expressed or implied by such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Factors that could cause actual results to differ materially from those anticipated in these forward-looking statements are described under the caption "*Risk Factors*" in the Company's Annual Information Form dated as of March 26, 2013 which is available for review on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws.