GREYSTAR RESOURCES LTD.

Annual Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(In Canadian Dollars, unless otherwise noted)

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of Greystar Resources Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive loss and deficit, shareholders' 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 Canadian generally accepted accounting principles, 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 financial position of Greystar Resources Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
March 23, 2011

GREYSTAR RESOURCES LTD.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at December 31, 2010 and 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and cash equivalents (note 9)	$ 98,343,227	$ 81,583,304
Accounts receivable and prepaid expenses	773,073	585,340
	99,116,300	82,168,644
Equipment (note 4)	1,118,743	1,033,517
Mineral properties (note 5)	20,903,746	18,590,951
	$ 121,138,789	$ 101,793,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,308,617	$ 2,764,557
Amounts payable on mineral property acquisition (note 5)	1,099,339	568,346
Asset retirement obligation (note 6)	933,777	713,666
	8,341,733	4,046,569
Amounts payable on mineral property acquisition (note 5)	-	445,640
Asset retirement obligation (note 6)	229,446	629,189
	8,571,179	5,121,398
Shareholders' equity:		
Common shares (notes 7(a) and (b))	266,686,662	207,735,611
Warrants (notes 7(b) and (e))	4,260,090	15,277,614
Contributed surplus (notes 7(c) and (d))	14,785,150	10,880,978
Deficit	(173,164,292)	(137,222,489)
	112,567,610	96,671,714
Nature of operations (note 1)		
Commitments (notes 5 and 14)		
Subsequent events (notes 1 and 5)		
	$ 121,138,789	$ 101,793,112

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Signed: *"David B. Rovig"* Director

Signed: *"Brian E. Bayley"* Director

GREYSTAR RESOURCES LTD.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)
For the years ended December 31, 2010 and 2009

	2010	2009
Exploration expenditures (note 5(b)):		
Feasibility and pre-feasibility studies	$ 10,138,124	$ 8,582,734
Other exploration expenditures	16,125,388	10,607,757
	26,263,512	19,190,491
General and administrative expenses:		
Amortization	338,294	266,142
Audit, legal and other professional fees	542,163	699,278
Investor relations	172,993	126,084
Management and consulting fees (note 8)	2,092,182	498,848
Office and administration (note 8)	460,448	234,450
Salaries and benefits	2,014,443	472,353
Stock-based compensation (note 7(d))	4,515,330	2,305,684
Transfer agent, listing and filing fees	181,761	136,781
Travel	607,965	206,960
	10,925,579	4,946,580
Loss before other items	37,189,091	24,137,071
Other items:		
Interest income	(1,164,205)	(337,782)
Foreign exchange (gain) loss	(83,083)	226,539
	(1,247,288)	(111,243)
Loss and comprehensive loss for the year	35,941,803	24,025,828
Deficit, beginning of year	137,222,489	113,196,661
Deficit, end of year	$ 173,164,292	$ 137,222,489
Basic and diluted loss per common share	$ 0.43	$ 0.43
Weighted-average number of common shares outstanding	83,784,134	56,089,860

See accompanying notes to consolidated financial statements

GREYSTAR RESOURCES LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (35,941,803)	$ (24,025,828)
Asset retirement obligation expenditures	(324,752)	(455,683)
Items not involving cash:		
Amortization	338,294	266,142
Accretion expense on asset retirement obligation	160,214	-
(Decrease) increase in asset retirement obligation expense	(39,069)	1,294,262
Interest accretion on amounts payable on mineral property acquisition	73,470	64,092
Stock-based compensation	4,515,330	2,305,684
Unrealized foreign exchange loss	(168,569)	(145,227)
Changes in non-cash working capital:		
Amounts receivable and prepaid expenses	(187,733)	(136,250)
Accounts payable and accrued liabilities	4,355,099	842,156
	(27,219,519)	(19,990,652)
Investing activities:		
Mineral property acquisition costs	(2,039,571)	(1,538,491)
Purchase of equipment	(415,473)	(173,182)
	(2,455,044)	(1,711,673)
Financing activities:		
Common shares and warrants issued on public offering	-	63,250,000
Common shares and warrants issued on private placement	-	12,039,865
Issue costs related to equity issuance	-	(3,991,393)
Common shares issued on exercise of stock options	371,763	827,622
Common shares issued on exercise of warrants	46,062,723	3,703,124
Allotment to be issued pursuant to exercise of warrants	-	194,265
	46,434,486	76,023,483
Increase in cash and cash equivalents	16,759,923	54,321,158
Cash and cash equivalents, beginning of year	81,583,304	27,262,146
Cash and cash equivalents, end of year	$ 98,343,227	$ 81,583,304

Supplementary cash flow information (note 9)

See accompanying notes to consolidated financial statements.

GREYSTAR RESOURCES LTD.
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)
For the years ended December 31, 2010 and 2009

	Share Capital			Contributed		
	Shares	Amount	Warrants	Surplus	Deficit	Total
Balance, December 31, 2008	46,063,798	$143,434,989	$384,800	$10,772,031	$(113,196,661)	$41,395,159
Private placement	6,579,161	7,874,898	4,164,967	-	-	12,039,865
Public offering	18,071,429	53,013,442	10,236,558	-	-	63,250,000
Public offering agents' compensation	-	-	2,005,548	-	-	2,005,548
Issue costs	-	(4,439,833)	(911,525)	-	-	(5,351,358)
Warrants issued for purchase of land	-	-	973,215	-	-	973,215
Expired warrants	-	-	(23,120)	23,120	-	-
Shares issued upon exercise of options	509,912	3,047,479	-	(2,219,857)	-	827,622
Shares issued upon exercise of warrants	1,136,464	5,156,471	(1,552,829)	-	-	3,603,642
Share subscriptions receivable	-	(546,100)	-	-	-	(546,100)
Allotment to be issued pursuant to exercise of warrants	-	194,265	-	-	-	194,265
Stock-based compensation	-	-	-	2,305,684	-	2,305,684
Net loss and comprehensive loss	-	-	-	-	(24,025,828)	(24,025,828)
Balance, December 31, 2009	72,360,764	207,735,611	15,277,614	10,880,978	(137,222,489)	96,671,714
Expired warrants (note 7(e))	-	-	(22,383)	22,383	-	-
Public offering agents' Compensation (note 7(b))	-	-	86,357	-	-	86,357
Shares issued upon exercise of options (note 7(b))	161,962	1,005,304	-	(633,541)	-	371,763
Shares issued upon exercise of warrants (note 7(b))	11,700,261	57,945,747	(11,969,381)	-	-	45,976,366
Stock-based compensation	-	-	-	4,515,330	-	4,515,330
Warrants issued for purchase of land	-	-	887,883	-	-	887,883
Net loss and comprehensive loss	-	-	-	-	(35,941,803)	(35,941,803)
Balance, December 31, 2010	84,222,987	$266,686,662	$4,260,090	$14,785,150	$(173,164,292)	$112,567,610

See accompanying notes to consolidated financial statements.

1. Nature of operations

Greystar Resources Ltd. (the "Company") is a publicly listed company incorporated in Canada under the legislation of the Province of British Columbia. The Company's shares are listed on the Toronto Stock Exchange and the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company's principal business activities include the acquisition, exploration and development of mineral properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether they contain reserves that are economically recoverable. Management anticipates that the Company will continue to raise adequate funding through equity or debt financings, although there is no assurance that the Company will be able to obtain adequate funding on favorable terms. The recoverability of amounts shown for mineral properties and equipment is dependent upon, among other things, the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, confirmation of the Company's interest in the underlying concessions and licenses, the ability of the Company to obtain the necessary mining and environmental permits, and future profitable production or proceeds from the disposition of the mineral properties.

At December 31, 2010, the Company had working capital of $90,774,567 but had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2010, the Company reported a net loss of $35,941,803 and as at December 31, 2010, had an accumulated deficit of $173,164,292. The ability of the Company to continue as a going concern is dependent upon the Company's ability to arrange additional funds to complete the development of its property, including obtaining the necessary permits and other regulatory approvals, and upon future profitable operations.

In December 2009, the Company filed its Environmental Impact Assessment ("EIA") with the Colombian Ministry of Environment, Housing and Territorial Development ("MAVDT") in respect to the development of an open pit gold-silver mine at the Company's Angostura project in Colombia. On April 20, 2010, the MAVDT requested a new EIA to be filed that conforms to a new regulation which calls for an adjustment of the occupied area outside of 'Paramo.' MAVDT's request would have required the Angostura project to be completely redesigned and would have severely impacted the project schedule and may have had a material effect on its economic viability.

On April 29, 2010, the Company filed an appeal of the notification from MAVDT. On May 28, 2010, the Company received a letter from MAVDT that reinstated the Company's EIA as filed. MAVDT will move forward with a review of the Company's EIA as originally filed. On July 15, 2010, MAVDT issued a notice to the Company that, at the request of third parties, Information Meetings for local communities that were being planned by the Company are to be incorporated into a public hearing process. The Company held two Informational Hearings on November 3 and 4, 2010, and the Public Hearing on November 21, 2010, to hear the views and opinions of certain interested parties on the environmental impact of the Angostura project. These Information and Public Hearings are steps in the process relating to the decision from MAVDT on issuing an environmental permit for the Angostura project. In December 2010, MAVDT notified the Company

1. Nature of operations (continued)

that a new Information Meeting and Public Hearing for the environmental permit are to be held in Bucaramanga. This decision was based on the fact that certain participants opposing the project, who had registered to address the general public during the first hearing, were in the petitioner's view, unable to participate on account of alleged restrictions in the road heading to California, Santander. This exceptional request was intended to better allow inhabitants of the city of Bucaramanga to express their views on the project. The Information Meeting was held on February 17, 2011, and the Public Hearing held on March 4, 2011, but was terminated early and cancelled by MAVDT after 28 of the inscribed 470 statements had been heard.

On March 18, 2011, the Company made an announcement clarifying certain comments made by the Ministry of Mines and Energy of Colombia, which could be incorrectly interpreted to mean that the Company is fully withdrawing from the Angostura Project. The Company confirmed that that it does not intend to withdraw from the Angostura Project and it intends simply to "desist" (which in this context, means to cease the Company's intention of further pursuing a formal petition or request for the administrative procedure for an environmental license at this time with a Colombian governmental entity, but without prejudice of the right and opportunity to file a new petition or request for administrative procedure for a mining project environmental license in the future) from ongoing environmental licensing to allow for future re-filing on terms that reflects concerns. On the March 23, 2011, the Company filed a request to desist from the administrative procedure of the environmental licensing before MAVDT. The Company is committed to developing the Angostura Project, but recognizes that there is a need to reconfigure it. As a result, the Company has decided it will not proceed with finalization of the feasibility study on the open pit project at this time. The Company intends to continue with studies into the feasibility of alternatives, including an underground option, whilst the uncertainty surrounding the definition of Paramo and the exclusion of mining from Paramo affects the permitting of its open pit/heap leach part of the project. The Company also will continue to proceed with evaluating the entire project while working jointly with the MAVDT as well as with the Ministry of Mines and Energy of Colombia in resolving any outstanding issues, including how the open pit project can be modified to meet concerns and to proceed with an underground project. The Company has completed a Preliminary Economic Evaluation ("PEE") of an underground operation at the Angostura Project that targets the high grade resource at Angostura. The Company proposes to work rapidly to advance the next phase of study and drilling with an objective to increase and improve the categorization of high grade underground resources, and investigating the potential to extend the resource at length and depth.

2. Significant accounting policies

(a) Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Company, its controlled subsidiaries and branch operations in Colombia. All significant intercompany transactions and balances have been eliminated.

2. Significant accounting policies (continued)

(b) Comparative figures

Comparative figures have been adjusted to conform to changes in presentation in these consolidated financial statements where required.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with banks and highly liquid investments having original terms to maturity of one year or less when acquired.

(d) Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of equipment. The estimated useful lives are as follows:

- Buildings 20 years
- Field equipment 3 to 5 years
- Office equipment 3 years
- Transport 5 years

(e) Mineral properties

Exploration and development expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. Mineral property acquisition costs and development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The amounts shown for mineral properties represent acquisition costs incurred to date, less recoveries and write-offs, and do not reflect fair value.

(f) Impairment assessment

The Company performs impairment tests on its mineral properties when events or changes in circumstances indicate that the carrying values of these assets may not be recoverable. As of December 31, 2010, management determined there is no impairment or write-down of the carrying value of mineral properties.

(g) Asset retirement obligations

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and

2. Significant accounting policies (continued)

(g) Asset retirement obligations (continued)

the resulting costs capitalized to the carrying value of the related asset. To the extent that the asset retirement obligation was created due to exploration activities, the amount capitalized is reduced immediately by a charge to exploration expenses for the same amount. To the extent that the asset retirement obligation was created due to development activities, the amount capitalized is amortized to operations over the life of the asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The asset retirement obligation is classified as current and long-term, based on expectation of settlement.

(h) Share capital

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached and announced for business combinations and at the date of issuance for other non-monetary transactions. For proceeds received from the issuance of compound equity instruments, the Company uses the relative fair value method to allocate proceeds received between the common share and warrant units upon initial recognition.

(i) Stock-based compensation and other stock-based payments

The Company has a stock option plan that is described in note 7(c). The Company records all stock-based payments using the fair value method. Under the fair value method, stock based payments for employees are measured at fair value at the date of grant and stock-based payments to non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are amortized over the vesting period. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(j) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

2. Significant accounting policies (continued)

(k) Loss per share

Basic loss per share is calculated using the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding options (note 7(d)) and warrants (note 7(e)) on loss per share would be anti-dilutive.

(l) Foreign currency translation

Transactions and account balances originally stated in currencies other than Canadian dollars have been translated into Canadian dollars using the temporal method of foreign currency translation as follows:

- Revenue and expense items at average exchange rates.
- Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect on the balance sheet date.
- Monetary assets and liabilities at the exchange rate in effect at the balance sheet date.

Exchange gains and losses are recorded in the statement of operations in the period in which they occur.

(m) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the statement of operations; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company has classified its cash and cash equivalents as held-for-trading and thus, measured at fair value. Accounts receivables are classified as loans and receivables and

2. Significant accounting policies (continued)

(m) Financial instruments (continued)

thus, measured at amortized cost. Accounts payable and accrued liabilities and amounts payable on mineral property acquisition are classified as other financial liabilities and thus, measured at amortized cost. The Company measures derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

(n) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties, determination of asset retirement and remediation obligations, the assumptions used in determining fair value of stock-based compensation and valuation allowances for future income tax assets. Actual results could differ from these estimates.

3. New accounting pronouncements

(a) Business Combinations

In October 2008, the CICA issued Handbook Section 1582, “Business Combinations”, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Should the Company engage in a future business combination, it would consider early adoption to coincide with the adoption of International Financial Reporting Standards.

(b) Non-controlling Interests

Also in October 2008, the CICA issued Handbook Section 1602, “Non-controlling Interests”, to provide guidance on accounting for non-controlling interests subsequent to a business combination. This is effective for fiscal years beginning on or after January 1, 2011.

(c) International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that 2011 is the changeover date for publicly- listed companies to use IFRS. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The changeover date of January 1, 2011, will require the 2010 comparatives to be presented according to IFRS.

3. New accounting pronouncements (continued)

(c) International Financial Reporting Standards (continued)

Key dates:

- January 1, 2010 (transition date): An opening statement of financial position according to IFRS will be prepared as at this date to facilitate the changeover to IFRS in 2011. The Company will continue to report its fiscal 2010 and comparative 2009 results according to Canadian GAAP.
- January 1, 2011 (changeover date): The date after which the Company will prepare and report interim and annual 2011 financial statements with 2010 comparatives according to IFRS.

The Company has identified the following impacted areas:

(i) Functional currency

Under Canadian GAAP – Companies apply criteria to determine whether a foreign subsidiary's operation is integrated or self-sustaining, in which case the temporal and current methods of translation, respectively, are then applied to the subsidiary's financial statement balances and results of operations. The Company uses the temporal method to translate foreign currency transactions into Canadian dollars.

Under IFRS – The concepts of integrated and self-sustaining foreign operations do not exist under International Accounting Standards ("IAS") 21, The Effects of Changes in Foreign Exchange Rates. Under IAS 21, a reporting entity and each of its foreign operations must identify its "functional currency", defined as "the currency of the primary economic environment in which the entity operates." Management has determined that the functional currency of Greystar Resources Ltd., its Colombian branch and subsidiaries is the U.S. dollar as this is the currency of the primary economic environment in which the Company operates.

(ii) Share-based payments

Under Canadian GAAP – The fair value of stock-based awards with different vesting dates are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards are recognized as they occur.

Under IFRS - Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the estimated lives of the respective tranches. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

3. New accounting pronouncements (continued)

(c) International Financial Reporting Standards (continued)

(iii) Share purchase warrants

Under Canadian GAAP – The Company's share purchase warrants are measured at fair value at initial recognition using the Black-Scholes option pricing model, and recorded in equity reserve with no subsequent re-measurement.

Under IFRS – The exercise prices of the Company's share purchase warrants are denominated in Canadian dollars. Because the functional currency of the Company is the U.S. dollar under IFRS, the share purchase warrants meet the definition of derivatives and will be measured as financial liabilities at fair value through profit or loss ("FVTPL") at date of the grant and the end of each reporting period. The fair value of the share purchase warrants is determined using the Black Scholes option pricing model.

(iv) Compound financial instruments

Under Canadian GAAP – The Company raised equity by issuing units that consisted of common shares and share purchase warrants. The gross proceeds were allocated to common shares and warrants using the relative fair value method.

Under IFRS – IAS 32 requires an entity to split a compound financial instrument at inception into separate liability and equity components. As the share purchase warrants will be classified as warrant liabilities, the residual method will be used to allocate the gross proceeds to common shares and warrant liability as required by IAS 32.

(v) Environment rehabilitation provision

Under Canadian GAAP – The Company uses the best estimate that a third party would charge for the remediation work to measure the reclamation and closure cost obligations. The Company uses the credit-adjusted pre-tax risk-free interest rate as a discount rate to measure the net present value of undiscounted estimated future cash flows.

Under IFRS – Under IAS 37, reclamation and closure cost obligations are measured based on management's best estimate of the expenditures required to settle the obligations as at the balance sheet date. In the case that management intends to perform the reclamation and closure activities internally at a lower cost than if they were performed externally, the lower costs are used to represent management's best estimate. The discount rate used to determine the present value of reclamation and closure cost obligations is the pre-tax rate that does not reflect risks for which future cash flow estimates have been adjusted.

(vi) Amounts payable on exploration and evaluation asset acquisition

Under Canadian GAAP – The Company acquired surface rights for which some payments are due in the future. This obligation has been recorded as amounts payable on exploration and evaluation asset acquisition and have been discounted to reflect its

3. New accounting pronouncements (continued)

(c) International Financial Reporting Standards (continued)

non-interest bearing feature. The Company used credit-adjusted pre-tax risk-free interest rate to discount this obligation and record the value of the mineral interest.

Under IFRS – The discount rate used to determine the present value of this obligation is the pre-tax rate that does not reflect risks for which future cash flow estimates have been adjusted.

(vii) Change in presentation currency

The Company currently presents its financial statements in Canadian dollars. The Company expects to present its financial statements in US dollars under IFRS. This change in presentation currency will result in a cumulative translation adjustment and under IFRS 1, the Company will elect to eliminate the cumulative translation adjustment on the IFRS transition date.

The Company is in the process of determining the effect of these items noted above for presentation in the first quarter interim financial statements for 2011.

4. Equipment

2010	Cost	Accumulated amortization	Net book value
Buildings	$ 748,942	$ 168,436	$ 580,506
Field Equipment	1,011,512	748,595	262,917
Office equipment	588,798	462,491	126,307
Transport	358,922	209,909	149,013
	$ 2,708,174	$ 1,589,431	$ 1,118,743

2009	Cost	Accumulated amortization	Net book value
Buildings	$ 556,021	$ 142,331	$ 413,690
Field Equipment	884,975	659,301	225,674
Office equipment	533,932	302,608	231,324
Transport	309,727	146,898	162,829
	$ 2,284,655	$ 1,251,138	$ 1,033,517

(Expressed in Canadian dollars)

5. Mineral properties

The Company's mineral properties comprise surface rights, mining titles, exploration licenses, exploitation permits and concession contracts that provide for gold, silver and other precious metals exploitation in an area located in the Municipality of California, Santander, Colombia, collectively known as the Angostura Project. The licenses, permits and contracts expire at various dates ranging from 2020 to 2038 and generally can be renewed for an additional 10, 20 or 30 years depending on the applicable mining code. Certain portions of the Angostura project are subject to royalties ranging from 5% to 10% of net profits after certain additional deductions. In addition, pursuant to the laws of Colombia, the Government of Colombia currently receives royalties on gold and silver production equal to 4% of 80% of the production value, which is calculated using the average gold and silver prices published by the London Metal Exchange.

In order to maintain the Company's mineral properties in good standing, the Company is required to make certain annual fee payments based on the number of hectares and a Colombian wage factor that fluctuates on an annual basis. As at December 31, 2010, the required annual fee payments related to the Company's mineral properties totaled approximately $620,000 (2009 - $611,000).

(a) Acquisition costs

	2010	2009
Acquisition costs, beginning of year	$ 18,590,951	$ 14,418,247
Additions during the year	2,312,795	4,172,704
Acquisition costs, end of year	$ 20,903,746	$ 18,590,951

Additions to mineral properties during the year ended December 31, 2010, relate to a combination of $2,066,512 cash consideration and 95,000 share purchase warrants issued. The warrants issued to purchase the Company's common shares have a term of 4 years with exercise prices ranging from $3.65 to $4.17 and maturity dates ranging from July 28, 2014 through October 21, 2014. The value of the share purchase warrants issued was estimated to be $246,283 using the Black–Scholes valuation model applying risk free rates ranging from 1.79% to 2.42%, expected lives based on the full term of the warrants, expected dividends of nil, and volatility rates ranging from 74.8% to 83.7%.

Additions to mineral properties during the year ended December 31, 2009, relate to a combination of $2,557,889 cash consideration and 628,500 share purchase warrants issued. The warrants issued to purchase the Company's common shares have a term of 4 years with exercise prices ranging from $2.05 to $6.75 and maturity dates ranging from January 11, 2012 through June 29, 2013. The value of the share purchase warrants issued was estimated to be $1,614,815 using the Black–Scholes valuation model applying risk free rates ranging from 1.39% to 3.45%,

5. Mineral properties (continued)

(a) Acquisition costs (continued)

expected lives based on the full term of the warrants, expected dividends of nil, and volatility rates ranging from 48.4% to 80.3%.

In June 2009, the Company acquired the “Las Puentes” land parcel for $2,037,318 (COP4,010,000,000). A cash payment of $1,017,920 (COP 1,860,000,000) was made on the acquisition date, with further payments of approximately $595,700 (COP1,150,000,000) payable in April 2010 and $518,000 (COP1,000,000,000) payable in April 2011.

Pursuant to the agreement, the Company was required to make a progress payment of approximately $595,700 (COP1,150,000,000) in April 2010 for the Las Puentes land parcel. However, certain of the original Las Puentes vendors are currently in a title dispute with another unrelated group. The Company believes that its title is not at risk, and has decided not to make the $595,700 payment until the title dispute amongst the vendors and the unrelated group is resolved.

The future obligations have been recorded as amounts payable on mineral property acquisition on the consolidated balance sheet and have been discounted to reflect the non-interest bearing feature of this obligation. The discounted value of the future payments recognized on the date of acquisition was $1,019,398 and is being accreted to earnings at a rate of 12%. The discounted amount of $1,099,339 includes accretion at 12% and the effects of exchange rate differences as at December 31, 2010.

In November 2009, the Company entered into a binding purchase agreement with a private Colombian company for an exclusive option to acquire a 100% working interest in the 78 hectares La Plata property ("La Plata"). The terms of the purchase agreement include staged payments totaling US$1,900,000 and the issuance of 160,000 share purchase warrants to acquire a 100% working interest in the property. During the year ended December 31, 2010, the Company made $1,345,959 (US$1,300,000) (2009 - $302,636 (US$300,000)) of the required staged payments and issued the share purchase warrants. Subsequent to year end, the Company made the final $297,332 (US$300,000) staged payment and has therefore, fully acquired the 100% working interest. The Company is required to incur minimum annual exploration expenditures aggregating approximately $745,950 (US$750,000) and to drill an aggregate of 4,000 meters on the property over a four year period starting in November 2009. In addition, if the Company develops an economically viable ore body at La Plata, the Company will pay a one-time payment of US$7 per ounce of gold and US$0.10 per ounce of silver for extractable reserves up to a maximum of 750,000 ounces.

(Expressed in Canadian dollars)

5. Mineral properties (continued)

(b) Exploration expenditures

The details of exploration expenditures expensed during the years ended December 31, 2010 and 2009 on mineral properties are as follows:

	2010	2009
Exploration expenditures:		
General and administrative cost (Angostura project in Colombia)	$ 6,126,343	$ 3,847,524
Assay and metallurgy	1,554,773	1,231,195
Consulting and geology	372,078	259,093
Drilling and field costs	6,426,498	2,737,147
Environmental	184,017	1,294,262
Equipment rentals, repairs, maintenance and supplies	462,812	88,102
Feasibility and pre-feasibility studies	10,138,124	8,582,734
Taxes and surface rights	998,867	1,150,434
	26,263,512	19,190,491
Cumulative exploration expenditures, beginning of year	106,571,989	87,381,498
Cumulative exploration expenditures, end of year	$ 132,835,501	$ 106,571,989

6. Asset retirement obligation

As at December 31, 2010, the Company had an asset retirement obligation of $1,163,223 (2009 - $1,342,855) relating to the remediation of environmental disturbances on the Angostura project. The obligation is based on $1,524,556 of undiscounted estimated cash flows required to settle the obligation in the future. Assumptions used by management to determine the carrying amount of the asset retirement obligation were a 12% credit-adjusted risk-free rate, a 15 - 25% mark-up in costs to reflect anticipated third party contractor costs and a 3.38 - 3.75% rate of inflation over the expected years to settlement, which is estimated to be in 2013.

(Expressed in Canadian dollars)

6. Asset retirement obligation (continued)

The following table shows the changes in the carrying amount of the Company's asset retirement obligation associated with the Angostura Project:

	2010	2009
Beginning of year, current and long-term	$ 1,342,855	$ 580,000
Decrease in liability due to change in estimate	(78,483)	-
Remediation work performed	(324,752)	(455,683)
Liabilities incurred during the year	39,414	1,294,262
Accretion during the year	160,214	-
Effect of translation on foreign currencies	23,976	(75,724)
End of year, current and long-term	1,163,223	1,342,855
Less current portion	933,777	713,666
	$ 229,446	$ 629,189

7. Share capital

(a) Authorized

Unlimited common shares without par value.

(b) Issued and outstanding

As of December 31, 2010, the Company had 84,222,987 common shares issued and outstanding (2009 – 72,360,764).

During the year ended December 31, 2010, a total of 11,700,261 shares of the Company were issued upon the exercise of warrants at prices between $2.47 and $4.30 per share for total proceeds of $46,062,723 of which $86,357 relates to the exercise of agents' warrants. As a result of these exercises, $11,969,381 previously recorded as warrants in shareholders' equity was transferred to share capital. For the year ended December 31, 2010, a total of 161,962 shares of the Company were issued upon the exercise of options at prices between $0.85 and $4.71 per share for total proceeds of $371,763. As a result of these exercises, $633,541 was transferred from contributed surplus to share capital.

On March 20, 2009, the Company completed a private placement of 6,579,161 units at a price of $1.83 per unit for gross proceeds of $12,039,865. Each unit consisted of one common share and three-quarters of a transferable common share purchase warrant. A total of 6,579,161 common shares and 4,934,371 warrants were issued on closing. The Company allocated $7,874,898 of gross proceeds to share capital and allocated $4,164,967 to warrants using the relative fair value method. The Company incurred $191,627 of issue costs with $125,338 allocated to common shares and $66,289 allocated to warrants. Each whole warrant entitles the holder to purchase one common share at a price of $2.47 per share

(Expressed in Canadian dollars)

7. Share capital (continued)

(b) Issued and outstanding (continued)

during the five-year period ending March 20, 2014. If at any time following six months from March 20, 2009, the closing price of the Company's common shares on the Toronto Stock Exchange (TSX) is above $3.70 for 30 or more consecutive trading days, the Company can give notice to accelerate the expiry date of up to 2,467,185 warrants to 60 days following the date of such notice. During 2010, this condition was met and the Company accelerated the expiry date resulting in 2,467,185 warrants being exercised. Additionally, if at any time following two months from the completion and delivery of a bankable feasibility study with respect to the Company's Angostura gold-silver project, the closing price of the Company's common shares on the TSX is above $3.70 for 30 or more consecutive trading days, the Company can give notice to accelerate the expiry of the remaining 2,467,186 warrants (or less) to 60 days following the date of such notice. The value of the warrants issued as part of this private offering was estimated using the Black-Scholes valuation model with the following assumptions:

Risk-free interest rate	1.85%
Expected life	5 years
Volatility	72%
Expected dividends	Nil

On September 29, 2009, the Company closed a public offering of 18,071,429 units at a price of $3.50 per unit for gross proceeds of $63,250,000. Each unit consisted of one common share and one-half of a transferable common share purchase warrant. A total of 18,071,429 common shares and 9,939,285 warrants were issued on closing, including 903,571 warrants issued as compensation to the agents assisting with the offering. The Company allocated the gross proceeds of $53,013,442 to share capital and $10,236,558 to warrants using the relative fair value method. The Company incurred $5,147,610 of issue costs with $4,314,495 allocated to common shares and $833,115 allocated to warrants. The 9,035,714 warrants subscribed to in this offering entitle the holder to purchase one common share at a price of $4.30 per share during the one-year period ending September 29, 2010. If at any time, the closing price of the Company's common shares on the TSX is greater than $5.00 for 20 or more consecutive trading days, the Company can give notice to accelerate the expiry date of the warrants to 20 days following the date of such notice. During 2010, this condition was met and the Company accelerated the expiry date resulting in 9,233,076 being exercised and 21,529 warrants expiring. Of these warrants, the Company received $194,265 due to the allotment to be issued pursuant to the exercise of 45,178 warrants. The Company also issued 127,000 common shares in 2009 and received cash proceeds of $546,100 subsequent to December 31, 2009. The 903,571 agents' warrants entitle the holder to purchase one unit at a price of $3.50 per unit during the one-year period ending September 29, 2010, with each

(Expressed in Canadian dollars)

7. Share capital (continued)

(b) Issued and outstanding (continued)

unit comprised of one common share and one-half of a transferable common share purchase warrant and having the same terms as the units subscribed to as part of the September 29, 2009 public offering. The value of the agents' warrants was estimated to be $1,359,965 using the Black-Scholes valuation model and has been recorded as an issue cost of this transaction. The valuation of the warrants issued as part of this public offering was estimated using the Black-Scholes valuation model with the following assumptions:

Risk-free interest rate	1.20%
Expected life	1 year
Volatility	119%
Expected dividends	Nil

(c) Share purchase options

The Company has an incentive share option plan (the Plan) that allows it to grant options to its employees, officers, directors and consultants to acquire common shares. The number of shares issuable pursuant to the Plan is a fixed maximum percentage of 10% of the common shares issued.

Under the terms of the Plan, the exercise price of each option equals the closing market price for the common shares on the TSX on the trading day prior to the date of the grant. Options have a maximum term of ten years and terminate sixty days following the termination of the optionee's employment or term of engagement, except in the case of retirement, or death, termination for cause, resignation at the request of the Board, removal or disqualification. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted. All stock options will automatically vest in the event of a change in control as defined in the Plan.

The share option plan also provides for a cashless exercise option provision which is in substance a stock appreciation right which calls for settlement by the issuance of equity instruments. Stock-based employee awards that include stock appreciation rights are accounted under the fair value based method. During the year ended December 31, 2010, the Company granted to directors, officers, employees and consultants a total of 3,095,750 options with vesting periods ranging from immediate vesting to vesting one third on each one year anniversary from the date of grant. The options are exercisable for up to five years from date of grant. The estimated fair value of the 2010 stock options granted at the date of option grant is $8,321,512 of which $3,309,518 has been recorded in stock-based compensation during the year ended December 31, 2010.

During the year ended December 31, 2009, the Company granted a total of 1,510,000 options with vesting periods ranging from immediate vesting to vesting one third on each one

(Expressed in Canadian dollars)

7. Share capital (continued)

(d) Stock-based payments

year anniversary from the date of grant. The options are exercisable for up to five years from date of grant. The estimated fair value of the stock options granted at the date of option grant was $3,241,456.

The Company recorded total stock based compensation expense of $4,515,330 for the year ended December 31, 2010 (2009 - $2,305,684), and will record additional expenses of $5,974,623 as the remaining options become vested.

The weighted average assumptions used to estimate the fair value of options granted were:

	2010	2009
Risk-free interest rate	2.42%	1.75%
Expected life	5 years	5 years
Volatility	77.5%	72.6%
Expected dividends	Nil	Nil

(Expressed in Canadian dollars)

7. Share capital (continued)

(d) Stock-based payments (continued)

The continuity of share purchase options for 2010 is as follows:

Expiry date	Exercise price	Balance, December 31, 2009	Granted	Exercised[1]	Expired/ cancelled	Balance, December 31, 2010
April 29, 2010	$4.10	99,450	-	(93,000)	(6,450)	-
July 25, 2010	$5.90	2,750	-	-	(2,750)	-
August 22, 2010	$6.00	14,000	-	-	(14,000)	-
September 6, 2010	$7.10	608,600	-	-	(608,600)	-
January 20, 2011	$8.01	471,000	-	-	(125,000)	346,000
March 1, 2011	$6.60	50,000	-	-	(50,000)	-
March 31, 2011	$11.00	9,500	-	-	-	9,500
May 26, 2011	$10.20	13,400	-	-	-	13,400
October 2, 2011	$10.30	406,500	-	-	(34,500)	372,000
September 20, 2012	$6.60	642,250	-	-	(59,000)	583,250
May 15, 2013	$4.71	617,535	-	(63,196)	(3,169)	551,170
June 23, 2013	$4.46	100,000	-	(20,000)	(80,000)	-
December 5, 2013	$0.85	17,800	-	(5,700)	-	12,100
May 18, 2014	$3.60	1,256,500	-	(116,738)	(26,002)	1,113,760
July 16, 2014	$3.26	75,000	-	(25,000)	(50,000)	-
August 11, 2014	$4.00	25,000	-	-	-	25,000
August 17, 2014	$4.05	30,000	-	-	-	30,000
September 14, 2014	$3.61	25,000	-	-	(25,000)	-
November 23, 2014	$6.22	35,000	-	-	-	35,000
January 1, 2015	$5.84	-	150,000	-	-	150,000
February 22, 2015	$5.52	-	750,000	-	-	750,000
May 17, 2015	$3.90	-	1,350,750	-	(163,375)	1,187,375
August 3, 2015	$3.98	-	400,000	-	-	400,000
September 1, 2015	$3.98	-	240,000	-	-	240,000
September 21, 2015	$3.92	-	140,000	-	-	140,000
November 1, 2015	$4.31	-	15,000	-	-	15,000
June 13, 2015	$5.05	-	50,000	-	-	50,000
		4,499,285	3,095,750	(323,634)	(1,247,846)	6,023,555
Weighted average exercise price		$5.83	$4.42	$3.94	$6.31	$5.11

(1) There were 225,000 options exercised on a cashless basis resulting in the issuance of 63,326 common shares.

(Expressed in Canadian dollars)

7. Share capital (continued)

(d) Stock-based payments (continued)

The continuity of share purchase options for 2009 is as follows:

Expiry date	Exercise price	Balance, December 31, 2008	Granted	Exercised[1]	Expired/ cancelled	Balance, December 31, 2009
June 7, 2009	$2.10	195,000	-	(195,000)	-	-
October 13, 2009	$2.55	4,400	-	(4,400)	-	-
November 23, 2009	$4.00	699,000	-	(699,000)	-	-
April 29, 2010	$4.10	99,450	-	-	-	99,450
July 25, 2010	$5.90	2,750	-	-	-	2,750
August 22, 2010	$6.00	14,000	-	-	-	14,000
September 6, 2010	$7.10	608,600	-	-	-	608,600
January 20, 2011	$8.01	471,000	-	-	-	471,000
March 1, 2011	$6.60	50,000	-	-	-	50,000
March 31, 2011	$11.00	9,500	-	-	-	9,500
May 26, 2011	$10.20	13,400	-	-	-	13,400
October 2, 2011	$10.30	406,500	-	-	-	406,500
October 20, 2011	$0.88	10,000	-	(10,000)	-	-
September 20, 2012	$6.60	642,250	-	-	-	642,250
May 15, 2013	$4.71	629,750	-	(12,215)	-	617,535
June 23, 2013	$4.46	150,000	-	(50,000)	-	50,000
November 17, 2013	$0.98	50,000	-	-	(50,000)	-
December 5, 2013	$0.85	20,000	-	(2,200)	-	17,800
May 18, 2014	$3.60	-	1,285,000	(28,500)	-	1,256,500
July 16, 2014	$3.26	-	75,000	-	-	75,000
August 6, 2014	$4.10	-	35,000	-	(35,000)	-
August 11, 2014	$4.00	-	25,000	-	-	25,000
August 17, 2014	$4.05	-	30,000	-	-	30,000
September 14, 2014	$3.61	-	25,000	-	-	25,000
November 23, 2014	$6.22	-	35,000	-	-	35,000
		4,075,600	1,510,000	(1,001,315)	(85,000)	4,499,285
Weighted average exercise price		$6.02	$3.67	$3.61	$2.26	$5.83

(1) There were 776,500 options exercised on a cashless basis resulting in the issuance of 285,097 common shares.

(Expressed in Canadian dollars)

7. Share capital (continued)

(e) Share purchase warrants

The continuity of share purchase warrants for the year ended December 31, 2010, is as follows:

Expiry date	Exercise price	Balance December 31, 2009	Issued	Exercised	Expired	Balance December 31, 2010
January 11, 2012	$7.10	40,000	-	-	-	40,000
January 10, 2013	$6.30	100,000	-	-	-	100,000
September 29, 2010	$3.50	106,607	-	(106,607)	-	-
September 29, 2010	$4.30	9,094,695	53,303	(9,126,469)	(21,529)	-
January 14, 2012	$6.75	3,700	-	-	-	3,700
February 18, 2012	$5.65	19,800	-	-	-	19,800
January 22, 2013	$2.05	30,000	-	-	-	30,000
June 20, 2013	$2.30	300,000	-	-	-	300,000
June 29, 2013	$4.89	100,000	-	-	-	100,000
November 13, 2013	$6.22	-	160,000	-	-	160,000
November 13, 2013	$6.10	-	15,000	-	-	15,000
March 20, 2014	$2.47	4,934,371	-	(2,467,185)	-	2,467,186
July 28, 2014	$4.16	-	15,000	-	-	15,000
July 29, 2014	$3.65	-	35,000	-	-	35,000
October 21, 2014	$4.14	-	10,000	-		10,000
October 21, 2014	$4.17	-	35,000	-		35,000
		14,729,173	323,303	(11,700,261)	(21,529)	3,330,686

(Expressed in Canadian dollars)

7. Share capital (continued)

(e) Share purchase warrants (continued)

The continuity of share purchase warrants for the year ended December 31, 2009, is as follows:

Expiry date	Exercise price	Balance December 31, 2008	Issued	Exercised	Expired	Balance December 31, 2009
October 3, 2009	$10.10	9,178	-	-	(9,178)	-
January 11, 2012	$7.10	40,000	-	-	-	40,000
January 10, 2013	$6.30	100,000	-	-	-	100,000
September 29, 2010	$3.50	-	903,571	(796,964)	-	106,607
September 29, 2010 (1)	$4.30	-	9,434,195	(339,500)	-	9,094,695
January 14, 2012	$6.75	-	3,700	-	-	3,700
February 18, 2012	$5.65	-	19,800	-	-	19,800
January 22, 2013	$2.05	-	30,000	-	-	30,000
June 20, 2013	$2.30	-	300,000	-	-	300,000
June 29, 2013	$4.89	-	100,000	-	-	100,000
March 20, 2014	$2.47	-	4,934,371	-	-	4,934,371
		149,178	15,725,637	(1,136,464)	(9,178)	14,729,173

(1) There were 9,035,714 share purchase warrants issued related to the September 29, 2009, public offering. The remaining 398,481 share purchase warrants relate to the exercise of 796,964 agents' warrants, which entitle them to an additional one-half of one transferable share purchase warrant as disclosed in note 7(b). The fair value of these additional warrants was estimated to be $645,580 and is based on a proportion that is equal to the relative fair value allocation of the gross proceeds described in note 7(b) applied to the original warrant value and exercise price.

(f) Shareholder rights plan

During 2003, the Company received regulatory and shareholder approval for a shareholder rights plan (the Rights Plan). Under the terms of the Rights Plan, one right was issued and attached to each outstanding common share of the Company at the close of the business on November 19, 2003, and one right will attach automatically to each common share issued thereafter.

The rights will trigger and become exercisable ten trading days after the occurrence of certain events including the acquisition or announcement of an intention to acquire by a person, including any persons related to or acting jointly or in concert with such person, of 20% or more of the Company's outstanding common shares, other than by an acquisition that complies with the

(Expressed in Canadian dollars)

7. Share capital (continued)

(f) Shareholder rights plan (continued)

permitted bid provisions of the Rights Plan or by an acquisition in respect of which the board of directors has waived the application of the Rights Plan. The initial exercise price of the rights is $25.00, subject to adjustments set forth in the Rights Plan. The expiry date for the rights plan has been extended from December 20, 2007 to December 20, 2013.

8. Related party transactions

During the year ended December 31, 2010, the Company was charged a total of $582,614 (2009 - $382,398) for office and administration fees, management and consulting fees and reimbursement of expenses, by directors and by companies with common directors.

Included in the accounts payable and accrued liabilities balance is a total of $7,062 (2009 - $29,702) owing to companies with common directors.

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

9. Supplementary cash flow information

	2010	2009
Cash amount of payments received:		
Interest received	$ 1,164,205	$ 337,782
Non-cash investing and financing activities:		
Agents' warrants issued from the public	-	1,359,968
Fair value of additional warrants granted upon exercise of agents' warrants	86,357	645,580
Share subscription receivable for common shares issued on exercise of warrants	-	546,100
Fair value of stock options transferred to share capital from contributed surplus on exercise of options	633,541	2,219,857
Fair value of warrants transferred to share capital on exercise of warrants	11,969,381	1,552,829
Fair value of share purchase warrants issued on mineral property acquisition	246,283	973,215
Amounts payable on mineral property acquisition	16,768	1,013,986

(Expressed in Canadian dollars)

9. Supplementary cash flow information (continued)

Cash and cash equivalents are comprised of:

	2010	2009
Cash	$ 4,602,740	$ 11,966,396
Bank short-term deposits	93,740,487	69,616,908
	$ 98,343,227	$ 81,583,304

10. Income taxes

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 28.5% (2009 - 30%) to pre-tax income (loss) as follows:

	2010	2009
Loss before income taxes	$ (35,941,803)	$ (24,025,828)
Income tax recovery at statutory rates	$ (10,243,414)	$ (7,207,748)
Difference in foreign tax rates	-	228,116
Stock based compensation and other permanent differences	1,718,770	691,705
Future tax rate differences	1,271,597	7,797,114
	(7,253,047)	1,509,187
Valuation allowance	7,253,047	(1,509,187)
Income tax recovery	$ -	$ -

The significant components of the Company's future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets		
Capital assets and resource properties	34,671,969	28,493,527
Asset retirement obligation	290,806	335,714
Losses carried forward	4,314,330	2,800,630
Share issuance costs	929,325	1,051,520
Total future income tax assets	40,206,430	32,681,391
Valuation Allowance	(40,206,430)	(32,681,391)
Future income tax assets, net of valuation allowance	$ -	$ -

10. Income taxes (continued)

At December 31, 2010, the Company has capital losses of approximately $2,132,938 (2009 - $2,157,000) that are without expiry and Canadian operating losses with expiry dates as follows:

Operating loss for years ending	Amount	Expiry Dates
December 31, 2004	$ 2,005,328	2014
December 31, 2005	610,310	2015
December 31, 2006	443,270	2026
December 31, 2007	450,760	2027
December 31, 2008	1,817,438	2028
December 31, 2009	4,381,630	2029
December 31, 2010	6,482,116	2030
	$16,190,852	

11. Segment disclosures

The Company operates in a single segment, being resource exploration and development. Capital expenditures made during 2010 and 2009 are disclosed in notes 4 and 5. Other geographic information is as follows:

	Canada	Colombia	Total
December 31, 2010:			
Loss for the year	$18,415,385	$17,526,418	$ 35,941,803
Interest Income	1,125,276	38,929	1,164,205
Total assets	106,834,761	14,304,028	121,138,789
December 31, 2009:			
Loss for the year	$10,838,962	$13,186,866	$ 24,025,828
Interest Income	323,549	14,233	337,782
Total assets	89,313,842	12,479,270	101,793,112

12. Management of financial risk

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

(a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Colombia and a large portion of its expenses are incurred in Colombian pesos and U.S. dollars. A significant change in the currency exchange rates between the Canadian dollar relative to the Colombian peso and U.S. dollar

12. Management of financial risk (continued)

(a) Currency risk (continued)

could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. The Company's cash and cash equivalents held in Canadian dollars at December 31, 2010 was $92,426,285 (2009 - $78,615,797).

The Company's exposure to the Colombian peso, expressed in Canadian dollars and Colombian pesos, on financial instruments is as follows:

	2010		2009	
	CDN$	Colombian peso	CDN$	Colombian peso
Cash and cash equivalents	$ 93,227	179,975,804	$ 598,289	1,170,819,961
Accounts receivable and prepaid expenses	524,882	1,013,284,852	337,783	661,023,483
Accounts payable and accrued liabilities	2,400,242	4,633,672,085	1,761,310	3,446,790,607
	$ 3,018,351	5,826,932,741	$ 2,697,382	5,278,634,051

As at December 31, 2010, with other variables unchanged, a 10% depreciation or appreciation of the Canadian dollar against the Colombian peso would change the values of the Colombian peso denominated financial instruments and would affect the consolidated statement of operations and comprehensive loss by approximately $301,800.

The Company's exposure to the Colombia peso on annual exploration expenditures throughout the year ended December 31, 2010 was $17,718,266. A 10% depreciation of the Canadian dollar against the Colombian peso would affect the consolidated statement of operations and comprehensive loss by approximately $1,771,827.

The Company's exposure to the U.S. dollar, expressed in Canadian dollars and U.S. dollars, on financial instruments is as follows:

	2010		2009	
	CDN$	US$	CDN$	US$
Cash and cash equivalents	$1,746,735	$1,754,234	$ 44,494	$ 42,513
Accounts payable and accrued liabilities	1,151,856	1,158,110	225,631	215,585
	$2,898,591	$2,912,344	$ 270,125	$ 258,097

12. Management of financial risk (continued)

(a) Currency risk (continued)

As at December 31, 2010, with other variables unchanged, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would change the values of the U.S. dollar denominated financial instruments and would affect the consolidated statement of operations and comprehensive loss by approximately $289,859.

The Company's exposure to the U.S. dollar on annual exploration expenditures throughout the year ended December 31, 2010 was $5,943,565. A 10% depreciation of the Canadian dollar against the U.S. dollar would affect the consolidated statement of operations and comprehensive loss by approximately $594,357.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through its counterparty ratings and credit limits.

The Company's cash and cash equivalents and short term investments are held through large Canadian financial institutions. Short-term investments are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These instruments mature and are cashable at various dates over the current operating period. Amounts receivable primarily consists of Harmonized Sales Tax receivable with expected payment from the Canadian government.

The total cash and cash equivalents and accounts receivable represent the maximum credit exposure. The Company limits its credit risk exposure by holding bank accounts and any short term investments with reputable banks with high credit ratings.

(c) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash balances in order to meet short and long term business requirements. The Company believes that these sources will be sufficient to cover its cash requirements for the upcoming year. The Company's cash is invested in liquid investments with quality financial institutions and is available on demand for the Company's programs and is not invested in any asset backed commercial paper. Contractual commitments that the Company is obligated to pay in future years are disclosed in note 14.

(Expressed in Canadian dollars)

12. Management of financial risk (continued)

(c) Liquidity risk (continued)

As at December 31, 2010, the Company's liabilities have contractual maturities as summarized below:

	Total	Less than 1 year
Accounts payable and accrued liabilities	$ 6,308,617	$ 6,308,617
Accounts payable on mineral properties	1,113,700	1,113,700
	$ 7,422,317	$ 7,422,317

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash in bank accounts and investments earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates. Assuming cash remains constant, an increase or decrease in the annual interest rate of 1% would result in a corresponding increase or decrease of annual interest income by $983,000.

(e) Fair value of financial instruments

The fair values of amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. The fair value of the amounts payable on mineral property acquisitions approximates their carrying value as there was no material change to the discount rate used to calculate the fair value since initial recognition.

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value financial assets and liabilities are described below:

(i) Level 1 – Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash equivalents, including demand deposits and money market instruments, are valued using quoted market prices. Marketable equity securities are valued using quoted market prices in active markets, obtained from securities exchanges. Accordingly, these items are included in Level 1 of the fair value hierarchy.

(Expressed in Canadian dollars)

12. Management of financial risk (continued)

(e) Fair value of financial instruments (continued)

(ii) Level 2 – Significant Other Observable Inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

(iii) Level 3 – Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices.

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at December 31, 2010.

	Financial assets at fair value				
	Level 1	Level 2	Level 3	December 31, 2010	December 31, 2009
Cash and cash equivalents	$ 98,343,227	$ -	$ -	$98,343,227	$81,583,304
Held for trading	98,343,227	-	-	98,343,227	81,583,304
Accounts receivable	154,736	-	-	154,736	507,514
Financial assets	154,736	-	-	154,736	507,514
Total financial asset at fair value	$ 98,497,963	$ -	$ -	$98,497,963	$82,090,818

	Financial inputs liabilities at fair value				
	Level 1	Level 2	Level 3	December 31, 2010	December 31, 2009
Accounts payable and accrued liabilities	$ 6,308,617	$ -	$ -	$ 6,308,617	$ 2,764,557
Amounts payable on mineral property acquisition	-	1,099,339	-	1,099,339	1,013,986
Total financial asset at fair value	$ 6,308,617	$ 1,099,339	$ -	$ 7,407,956	$ 3,778,543

13. Capital management

The Company's objective when managing capital is to maintain adequate levels of funding in order to support exploration and development of its projects in Colombia and to maintain corporate and administrative functions. The Company considers shareholders' equity as capital.

(Expressed in Canadian dollars)

13. Capital management (continued)

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the prior year (see note 1 for additional information).

14. Commitments

The following is a schedule of the Company's commitments as at December 31, 2010:

	Total	2011	2012	2013	2014	2015	2016 and Thereafter
Consulting & contract services (a)	$ 2,191,267	$ 2,181,448	$ 9,819	$ -	$ -	$ -	$ -
Operating leases (b)	393,500	189,008	152,558	24,856	14,128	12,950	-
	$ 2,584,767	$ 2,370,456	$ 162,377	$ 24,856	$ 14,128	$ 12,950	$ -

(a) Relates to various professional services and outsourced services.

(b) Primarily relates to operating leases for office premises

The Company has commitments related to the acquisition of mineral properties as described in note 5.

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.