

# INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2014** 

(Expressed in Canadian dollars)

# INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

		June 30, 2014	December 31, 2013
	Notes	\$	\$
Assets			
Current			
Cash and cash equivalents		263,070	23,004
Investment certificates		9,372	9,092
Accounts receivable		39,782	19,201
Prepaid expenses		227	1,047
		312,451	52,344
Exploration and evaluation assets	4	15,145,343	15,030,221
Property, plant and equipment	5	913,215	926,292
		16,371,009	16,008,857
Liabilities			
Current			
Accounts payable and accrued liabilities	7	72,842	493,854
Shareholders' Equity			
Share capital	6(b)	24,372,879	23,634,879
Warrants	6(c)	897,000	140,000
Contributed surplus	( )	4,245,027	4,245,027
Accumulated other comprehensive loss		81,984	81,984
Deficit		(13,298,723)	(12,586,887)
		16,298,167	15,515,003
		16,371,009	16,008,857
Going concern	2		
Commitments and contingency	11		

Approved on behalf of the Board

Signed: "James H. Decker"

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

Signed: "Ernesto Bendezu"

# INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

**Expressed in Canadian Dollars** 

# For the periods ended June 30, 2014 and 2013

		apital	Warran	IS .	Surplus	Comprehensive Loss	Deficit	Total
	Shares Outstanding	\$	Warrants Outstanding	\$	\$	\$	\$	\$
Balance, December 31, 2012 Net loss and comprehensive	138,551,374	22,335,296	18,887,525	2,168,418	2,066,192	81,984	(11,505,636)	15,146,254
loss for the period	_	_	_	_	_	_	(689,123)	(689,123)
Private placement (Note 6(b))	2,083,334	239,583	_	_	-	-	(000,120)	239,583
Private placement (Note 6(b))	14,285,714	500,000	_	_	-	-	-	500,000
Warrants issued (Note 6 (c))	· · ·	· -	1,041,666	10,417	-	-	-	10,417
Warrants expired	-	-	(7,058,525)	(301,131)	301,131	-	-	-
Balance June 30, 2013	154,920,422	23,074,879	12,870,666	1,877,704	2,367,323	81,984	(12,194,759)	15,207,131
Net loss and								
comprehensive								
loss for the period	-	-	-	-	-	-	(392, 128)	(392, 128)
Private placement (Note 6(b))	14,000,000	560,000	-	-	-	-	-	560,000
Warrants issued (Note 6 (c))	-	-	7,000,000	140,000	-	-	-	140,000
Warrants expired (Note 6(c))	-	-	(12,870,666)	(1,877,704)	1,877,704	-	-	-
Balance, December 31, 2013	168,920,422	23,634,879	7,000,000	140,000	4,245,027	81,984	(12,586,887)	15,515,003
Net loss and								
comprehensive								
loss for the period	-	-	-	-	-	-	(711,836)	(711,836)
Private placements (Note 6(b))	29,900,000	738,000	-	-	-	-	-	738,000
Warrants issued (Note 6(c))	-	-	29,900,000	757,000	-	-	-	757,000
Balance June 30, 2014	198,820,422	24,372,879	36,900,000	897,000	4,245,027	81,984	(13,298,723)	16,298,167

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

# INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

**Expressed in Canadian Dollars** 

# For the periods ended June 30,

		For the three months ended June 30,		For the six nended Jun	
		2014	2013	2014	2013
	Notes	\$	\$	\$	\$
Expenses:					
Management fees		15,697	15,000	33,272	60,000
Professional fees		55,748	42,829	97,448	128,447
Office and administration		178,002	168,443	300,955	239,579
Promotion and shareholder costs		8,716	10,842	33,323	42,295
Foreign exchange		27,803	(42,079)	20,787	(42,079)
Depreciation	5	10,715	9,939	20,795	23,113
Write-off of exploration and evaluation assets	4	211,362	238,097	211,362	238,097
Loss from operations before the undernoted		(508,043)	(443,071)	(717,942)	(689,452)
Interest and other income		5,906	(1,850)	6,106	329
Net loss and comprehensive loss for the period		(502,137)	(444,921)	(711,836)	(689,123)
Deficit, beginning of period		(12,796,586)	(11,749,838)	(12,586,887)	(11,505,636)
Deficit, end of period		(13,298,723)	(12,194,759)	(13,298,723)	(12,194,759)
Loss per share, basic and diluted		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of shares outstanding (basic)		198,820,422	146,431,097	180,420,422	142,973,408

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

# INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

**Expressed in Canadian Dollars** 

# For the periods ended June 30,

	2014	2013
	\$	\$
Operating activities		
Net loss for the period	(711,836)	(689,123)
Items not affecting cash:		
Depreciation	20,795	23,113
Loss on diposal of fixed assets	2,194	2,633
Write-off of exploration and evaluation assets	211,362	238,097
Change in non-cash working capital		
Accounts receivable	(20,581)	28,584
Prepaid expenses	820	(4,324)
Accounts payable and accrued liabilities	(426,699)	(57,315)
Cash used in operating activities	(923,945)	(458,335)
Investing activities		
Exploration and evaluation assets	(326,484)	(387,584)
Property, plant and equipment purchases	(6,696)	(10,740)
Property, plant and equipment proceeds on dispositions	2,472	31,669
Investment certificates	(281)	-
Cash used in investing activities	(330,989)	(366,655)
Financing activities		
Issuance of share capital and warrants	1,495,000	750,000
Cash from financing activities	1,495,000	750,000
Net inrease (decrease) in cash and cash		
equivalents during the period	240,066	(74,990)
Cash and cash equivalents, beginning of the period	23,004	200,965
Cash and cash equivalents, end of the period	263,070	125,975

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

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

#### 1. NATURE OF BUSINESS

The registered address of Antioquia Gold Inc. is 1000,  $250 - 2^{nd}$  St SW, Calgary, Alberta, Canada, T2P 0C1. The Company is listed on the Toronto Venture Exchange ("TSX-V") under the symbol "AGD". The Company trades on the OTCQX pink sheets, under the symbol "AGDXF".

Antioquia Gold Inc. (formerly High American Gold Inc.) completed a transaction with Am-Ves Resources Inc. ("Am-Ves") on July 20, 2008. Am-Ves was incorporated under the laws of Alberta on January 19, 2006. The transaction to acquire 100% of the outstanding shares of Am-Ves was accounted for as a reverse takeover as the control of Antioquia Gold Inc. was acquired by the shareholders of Am-Ves. On March 31, 2009 Antioquia Gold Inc. and Am-Ves were amalgamated under the laws of Alberta, and the Company began operating under the name Antioquia Gold Inc. (the "Company"). The Company owns 100% of Antioquia Gold Ltd., a Barbados company, which in turn has a branch registered to conduct business in Colombia, South America. All mineral exploration and evaluation activities of the Company are carried out in Colombia. On December 2, 2009 the Company completed the 100% acquisition of Ingenieria Y Gestion Del Territorio S.A. ("IGTER") a management company incorporated under the laws of Colombia.

The Company is engaged in the acquisition, exploration and development of mineral resource properties internationally, with a current focus in Colombia. The Company is in the process of exploring its mineral properties and has not yet determined whether they contain reserves that are economically recoverable. The success of the Company's exploration and development of its mineral properties will be influenced by significant financial risks, legal and political risks, fluctuations in commodity prices and currency exchange rates, varying levels of taxation and the ability of the Company to discover recoverable reserves and to bring such reserves into production on an economic basis. The Company will be required to obtain additional financing to develop its resource properties. While the Company seeks to manage these risks, many of these factors are beyond its control.

These interim unaudited condensed consolidated financial statements of the Company for the six months ended June 30, 2014 were authorized for issue by the board of directors on August 20, 2014.

### 2. GOING CONCERN

These interim unaudited condensed consolidated financial statements have been prepared using International Financial Reporting Standard ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from June 30, 2014. At June 30, 2014, the Company had a cumulative deficit of \$13,298,723 (December 31, 2013 – \$12,586,887) and working capital of \$190,228 (December 31, 2013 deficiency of \$441,510). The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations, generate sufficient funds and continue to obtain sufficient capital from investors to meet its current and future obligations. The recoverability of amounts shown for exploration properties is dependent on several factors. These factors include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable operations or proceeds from disposition of mineral interests. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As a result of these risks, there is significant doubt as to the appropriateness of the going concern assumption. There is no assurance that the Company's funding initiatives will continue to be successful and these interim unaudited condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statements of financial position classifications that would be necessary if

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30. 2014

the going concern assumption was inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these financial statements:

### Basis of presentation

Statement of Compliance

These interim unaudited condensed consolidated financial statements are presented in accordance with IFRS and in particular in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs").

#### Basis of measurement

These interim unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments designated at fair value through profit and loss, which are stated at their fair value. The Company operates in one segment defined as the cash generating unit ("CGU") which is Colombia.

#### Basis of consolidation

These interim unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; Antioquia Gold Ltd., a Barbados company ("AGD Barbados") and Ingenieria Y Gestion Del Territorio S.A. ("IGTER"). AGD Barbados has a branch operation in Colombia ("AGD Colombia"). Intercompany transactions and balances are eliminated on consolidation.

### Presentation and functional currency

The Company's presentation currency and functional currency is the Canadian dollar.

During 2012 the functional currency of AGD Colombia and IGTER was the Colombian Peso and the functional currency of AGD Barbados was the United States Dollar. During 2013 there was a change in management who changed the functional currency to better reflect the fact that all of the company's funding to date had been in Canadian dollars.

## Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the statement of financial position date and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in Consolidated Statements of Loss, Comprehensive Loss and Deficit.

### Related party transactions

Related party transactions conducted in the normal course of operations are measured at the exchange value. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, to similar transactions to non-key management personnel related entities on an arm's length basis.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

#### Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to a contractual agreement.

Financial assets are initially measured at fair value and classified into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Consolidated Statement of Loss, Comprehensive Loss and Deficit for the period.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Consolidated Statement of Loss, Comprehensive Loss and Deficit for the period. Other financial liabilities, including borrowings, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through loss for the year are recognized immediately in the Consolidated Statement of Loss, Comprehensive Loss and Deficit for the year.

Financial assets and financial liabilities are offset and reported on the Consolidated Statement of Financial Position only if there is an enforceable legal right to offset the recognized amounts, and an intention to realize the asset and settle the liability simultaneously.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Consolidated Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Financial instruments recognized in the Consolidated Statement of Financial Position include cash and equivalents, investment certificates, accounts receivable, sales taxes recoverable, and accounts payable and accrued liabilities. The respective accounting policies are described below.

### Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, cash held at a financial institution or investments having a maturity of ninety days or less at acquisition, that are readily convertible to the contracted amounts of cash.

The Corporation has classified its financial instruments as follows:

<u>Financial instrument</u> <u>Classification</u>

Cash and cash equivalents

Loans and receivables

Investment certificates FVTPL

Account receivable Loans and receivables

Taxes receivable Loans and receivables

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2014** 

Accounts payable and accrued liabilities

Other financial liabilities

### **Pre-exploration costs**

Pre-exploration costs are expensed in the period in which they are incurred.

# **Exploration assets**

Exploration expenditures relating to resource properties in which a legal right to explore has been obtained and an interest is retained, are deferred and are carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property is written off. The fair value of resource properties acquired in exchange for the issuance of the Company's shares is determined by the trading price of the Company's shares on a three day average trading price before and after the shares are issued.

Option payments paid by the Company are capitalized against resource property costs when paid. Options payments received by the Company are deducted from resource property costs when received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received/paid.

### **Evaluation assets**

Evaluation expenditures relating to the evaluation of resource properties are capitalized until properties are brought into production, when costs are amortized on a unit-of-production basis over economically recoverable reserves, abandoned or the interest is sold.

If a project is successful and production has occurred, the exploration expenditures and related deferred evaluation expenditures are amortized by charges against income from future mining operations. Exploration and evaluation expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses, are expensed in the year in which they are incurred.

## Property, plant and equipment

Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

# Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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

### Depreciation

Depreciation is recognized in profit or loss and is calculated as follows:

Plant and warehouse 5% declining balance
Office equipment 10% declining balance
Computer equipment 20% declining balance
Vehicle 20% declining balance

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the Consolidated Statement of Loss, Comprehensive Loss and Deficit over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the Consolidated Statement of Loss Comprehensive loss and Deficit on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

### Impairment of financial assets

The Company assesses at the end of each year end or when events or circumstances indicate that a financial asset is impaired.

# Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Available for sale

If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive loss to profit or loss.

### Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists.

Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

When events and circumstances indicate that impairment may have occurred, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of a non-financial asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

### **Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in Consolidated Statement of Loss, Comprehensive Loss and Deficit in the year in which the expenditure is incurred. Gains or losses arising from de-recognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the Consolidated Statement of Loss, Comprehensive Loss and Deficit when the asset is de-recognized.

# **Provisions**

Provisions are recognized when the Company or its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

# Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur.

### Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. If the Company is virtually certain that some or all of a provision will be reimbursed, for example under an insurance contract, such reimbursement is recognized as a separate asset. Provisions may be discounted using a current pre-tax rate that reflects the risks specific to the liability. The expense relating to any provision is presented in the Consolidated Statement of Loss, Comprehensive Loss and Deficit.

The Company did not have any provisions as at June 30, 2014 or December 31, 2013.

### Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, stock options or warrants are shown in equity as a deduction, net of tax, from the proceeds.

### Stock based payments

Where equity-settled stock options are awarded to employees, the fair value of the stock options are measured at the date of grant using the Black-Scholes option pricing model and is charged to the Consolidated Statement of Loss, Comprehensive Loss and Deficit over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Loss, Comprehensive Loss and Deficit over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the stock based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method and is measured using Black Scholes and assumptions at the time of vesting. The applicable fair value of any stock options which are exercised are transferred from contributed surplus to share capital. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

### Purchase warrants and broker compensation options

Purchase warrants are classified as equity and measured at fair value on the date of issue using the Black-Scholes option pricing model. Broker compensation options are classified as issuance costs and a deduction from equity and measured at fair value on the date of issue using the Black-Scholes option pricing model. The fair value of the purchase warrants and broker compensation options are not subsequently revalued.

#### Income recognition

Income associated with consulting are realized when all significant acts have been completed and when collection is reasonably assured. Interest income is accrued as earned.

## Comprehensive income

Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a year except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings.

# Income (loss) per share

Basic income (loss) per share is calculated by dividing net income (loss) and comprehensive income (loss) by the weighted average number of common shares outstanding for the period. The computation of diluted income (loss) assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted income (loss) per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. In years when the Company reports a comprehensive loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and is therefore not reported.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Income taxes

Income taxes are calculated using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry. Deferred tax assets and liabilities are presented as a non-current item and measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the period in which the change is enacted or substantively enacted.

# Recent accounting pronouncements

The Company is currently evaluating the impact on its interim unaudited condensed consolidated financial statements of recent accounting pronouncements, as follows:

### IFRS 9 Financial Instruments

IFRS 9, Financial Instruments was issued by the IASB and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

#### Use of estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the interim unaudited condensed consolidated financial statements within the next financial year are discussed below:

## Rehabilitation provision

The rehabilitation provision is based on internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the recognized rehabilitation provisions may be higher or lower than currently provided for.

The Company did not have a rehabilitation provision at June 30, 2014 and December 31, 2013.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If after an expenditure is capitalized information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year that the new information becomes available.

# Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

#### Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

# Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 4. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets are analyzed as follows:

Colombia	Exploration Assets	Evaluation Assets	Total	
	\$	\$	\$	
For the year ended December 31, 2013				
Balance at December 31, 2012	2,612,554	11,841,588	14,454,142	
Additions	-	774,959	774,959	
Write-offs	-	(198,880)	(198,880)	
Balance at December 31, 2013	2,612,554	12,417,667	15,030,221	
For the six months ended June 30, 2014				
Balance at December 31, 2013	2,612,554	12,417,667	15,030,221	
Additions	-	326,484	326,484	
Write-offs	-	(211,362)	(211,362)	
Balance at June 30, 2014	2,612,554	12,532,789	15,145,343	

# **Cisneros Project**

The Company owns 9 mining concessions which are located just west of Cisneros Colombia (the "Cisneros Project") as follows:

Mining	
concession	
number	Project name
5671	Guayabito Property
4556	Guayabito Property
7342	Bullet Property
7342B	Bullet Property
ILD-14271	Pacho Luis Property
7175	Pacho Luis Property
7175B	Pacho Luis Property
1498	Pacho Luis Property
5419	Pacho Luis Property

## (a) Guayabito Property

On October 18, 2007, the Company entered into a purchase option agreement ("Purchase Agreement") to acquire 100% interest of the Guayabito Property, concession 5671, located in the Antioquia Department of Colombia. The payment terms of the Purchase Agreement totalled \$1,600,000 USD plus 500,000 Am-Ves common shares and the retention of a 1% royalty. The \$1,600,000 was paid in a series of payments beginning on October 18, 2007 with the final payment made in August 2010 when 100% ownership of the property was registered with the Colombian National Mining Registry in the name of the Company. The 500,000 Am-Ves common shares were

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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issued on October 17, 2007. The Purchase Agreement also required the Company to incur \$2,000,000 USD on a comprehensive exploration and development program. This commitment was met.

On May 31, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the Guayabito Property, concession 4556, located in the Antioquia Department of Colombia, from a private individual. The payment terms totaled Col Pesos 10,000,000.

### (b) Bullet Property

On April 9, 2009 the Company signed a contract (the "Contract") with Bullet Holding Corp. ("BHC") for the purchase of a 90% interest in mining concessions 7342 and 7342B. The terms of the Contract required the Company to issue 1,062,500 common shares and 531,250 warrants (each warrant entitled the holder to purchase 1 additional common share for \$0.40 per share prior to expiry on November 12, 2011). All common shares and warrants were issued on November 12, 2009. The Contract also required the Company to incur \$2,000,000 USD in exploration expenditures by October 9, 2010 on any of the Company's Cisneros Project mining concessions. This commitment was met. The Contract provided BHC with a 10% free carried interest until December 30, 2011 (extended from December 31, 2010). BHC was given an extension to January 31, 2012 to evaluate the geology report and data collected during 2011. BHC converted the 10% interest into a 1% net smeltor return (NSR) on January 31, 2012.

# (c) Pacho Luis Property

On May 19, 2010 the Company entered into a purchase contract for a mining title known as the Pacho Luis lands mining concession ILD-14271. The acquisition cost was comprised of a cash deposit of \$50,000 USD and 150,000 common shares to be issued upon title registration. The common shares were issued on June 22, 2011 upon registration of 100% of the mining title at the Colombia National Mining Registry. The value of the shares was determined to be \$34,500, based on the trading price of the Company's shares three days before and three days after the shares were issued.

On November 19, 2007 the Company agreed to acquire 50% of mining concession 7175. The remaining 50% of concession 7175 was acquired by the Company on June 10, 2008. The payment terms totaled Col Pesos 203,706,386.

On November 19, 2007 the Company agreed to acquire 50% of mining concession 7175B from a private individual. The remaining 50% of concession 7175B was acquired by the Company from the same individual on June 10, 2008. The payment terms totaled Col Pesos 11,533,416.

On November 19, 2007 the Company agreed to acquire 50% of mining concession 1498 from a private individual. The remaining 50% of concession 1498 was acquired by the Company from the same individual on June 10, 2008. The payment terms totaled Col Pesos 231,309,322.

On November 19, 2007 the Company agreed to purchase mining concession 5419 from a private individual. The payment terms totaled Col Pesos 483,379,478.

## **Strategic Properties**

The properties described below are collectively referred to as the Strategic Properties.

Under a pre-existing agreement between a wholly-owned subsidiary of Barrick Gold Corporation ("Barrick"), and IGTER, IGTER had the option to acquire certain properties.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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During 2010 and 2011, the Company exercised its option on nine of those properties, which are collectively referred to as the Strategic Properties. Barrick has a back-in right exercisable once 2 million ounces of proven and probable ounces of gold equivalent are quantified on a given project. If Barrick chooses to exercise its option, it may retain a 75% interest in the selected property via a cash payment to Antioquia equal to a multiple of three times the amount of expenditures incurred by Antioquia up to, and including, the date the option is exercised, plus a modest fee for each ounce of gold equivalent quantified. If Barrick does not exercise its option, it would be entitled to a 2% net smelter return (NSR) under certain conditions. There are no minimum earn-ins or exploration expenditures required from the Company to maintain 100% ownership of the concessions.

During the year ended December 31, 2013, the Company reviewed its Strategic Properties and decided to only retain the properties named Concordia-Betulia, Manizales Norte, and Caicedo. All of the other properties were written off in the company's books resulting in a charge of \$198,880 during the year ended December 31, 2013.

During the period ended June 30, 2014;

- i. The Company reviewed its Concordia-Betulia property and decided to relinquish 10,700 hectares to a third party and only retain approximately 1,687 hectares (formerly with a project area of 12,387 hectares). The 10,700 hectares relinquished to a third party (referred to as the Oribella property) are subject to a 0.5% royalty to Antioquia that can be purchased for US\$1,500,000. The acquirer of the Oribella property agreed to pay the licence canon due on May 14, 2014 of COP 110,803,026 (approximately US\$58,000) and to reimburse Antioquia for the application payment of COP101,136,976 (approximately US\$53,000) when it is registered with the ANM as a contract. If the application is converted to a licence on or before the anniversary of the agreement the acquirer will pay Antioquia an additional US\$30,000 payment on the anniversary date. No other obligations are required to keep the project in good standing and the acquirer may drop or reduce the lands at any time.
- ii. The decision was made to write off Manizales Norte, and Caicedo resulting in a write off of exploration and evaluation assets of \$211,362.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# 5. PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment are as follows:

		C	Office & Computer		
	Plant & Warehouse	Land	Equipment	Vehicle	Total
Cost	\$	\$	\$	\$	\$
Balance at December 31, 2013	743,732	84,987	184,322	60,604	1,073,645
Additions	6,000	-	696	-	6,696
Dispositions	-	-	(8,910)	(824)	(9,734)
Balance at June 30, 2014	749,732	84,987	176,108	59,780	1,070,607
Depreciation					
Balance at December 31, 2013	16,105	-	87,442	43,806	147,353
Depreciation for the period	4,070	-	10,805	5,920	20,795
Dispositions	-	-	(4,441)	(6,315)	(10,756)
Balance at June 30, 2014	20,175	-	93,806	43,411	157,392
Carrying amounts					
Balance at December 31, 2013	727,627	84,987	96,880	16,798	926,292
Balance at June 30, 2014	729,557	84,987	82,302	16,369	913,215

### 6. SHARE CAPITAL

(a) Authorized: Unlimited common shares

# **(b)** Common shares issued:

	Shares	Amounts
Balance at December 31, 2012	138,551,374	\$22,335,296
Issued pursuant to a private placement	2,083,334	239,583
Issued pursuant to a private placement	14,285,714	500,000
Issued pursuant to a private placement	14,000,000	560,000
Balance at December 31, 2013	168,920,422	\$23,634,879
Issued pursuant to a private placement	15,900,000	318,000
Issued pursuant to a private placement	14,000,000	420,000
Balance at June 30, 2014	198,820,422	\$24,372,879

Common share activity - 2014

On February 24, 2014 the Company completed a non-brokered private placement for aggregate proceeds of \$795,000 via the issuance of 15,900,000 units at a price of \$0.05 per unit. Each unit consists of one common share in the share capital of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one additional common share at a price of \$0.05 per share for a period of eighteen months. The proceeds were allocated as to common shares \$318,000, and as to warrants \$477,000. The fair value of the warrants was estimated using the Black

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Scholes pricing model under the following assumptions: dividend yield – nil; expected volatility – 158%; risk free rate of return 1.05%; life – 1.5 years.

On March 28, 2014 the Company completed a non-brokered private placement for aggregate proceeds of \$700,000 via the issuance of 14,000,000 units at a price of \$0.05 per unit. Each unit consists of one common share in the share capital of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one additional common share at a price of \$0.05 per share for a period of eighteen months. The proceeds were allocated as to common shares \$420,000, and as to warrants \$280,000. The fair value of the warrants was estimated using the Black Scholes pricing model under the following assumptions: dividend yield – nil; expected volatility – 158%; risk free rate of return 1.05%; life – 1.5 years.

# Common share activity - 2013

On February 19, 2013 the Company completed a non-brokered private placement for aggregate proceeds of \$250,000 via the issuance of 2,083,334 units at a price of \$0.12 per unit. Each unit consists of one common share in the share capital of the Company and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder thereof to purchase one additional common share at a price of \$0.25 per share for a period of six months. The proceeds were allocated as to common shares \$239,583, and as to warrants \$10,417. The fair value of the warrants was estimated using the Black Scholes pricing model under the following assumptions: dividend yield – nil; expected volatility – 136%; risk free rate of return 1.49%; weighted average life – 0.5 years.

On May 8, 2013 and May 30, 2013 the Company completed a non-brokered private placement for aggregate proceeds of \$500,000 via the issuance of 4,300,000 and 9,985,714 common shares (for a total of 14,285,714 shares) at a price of \$0.035 per share.

On December 19, 2013 the Company completed a non-brokered private placement for aggregate proceeds of \$700,000 via the issuance of 14,000,000 units at a price of \$0.05 per unit. Each unit consists of one common share in the share capital of the Company and one half of a common share purchase warrant of the Company. Each whole warrant entitles the holder thereof to purchase one additional common share at a price of \$0.05 per share for a period of eighteen months. The proceeds were allocated as to common shares \$560,000, and as to warrants \$140,000. The fair value of the warrants was estimated using the Black Scholes pricing model under the following assumptions: dividend yield – nil; expected volatility – 174%; risk free rate of return 2.36%; weighted average life – 1.5 years. The shares were subscribed for by Desafio Minero, a company owning approximately 43.8% of the outstanding common shares of the Company.

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# (c) Warrants issued:

	Warrants
Balance at December 31, 2012	18,887,525
Issued pursuant to a private placement	1,041,666
Issued pursuant to a private placement	7,000,000
Warrants expired	(8,100,191)
Warrants expired	(11,829,000)
Balance at December 31, 2013	7,000,000
Issued pursuant to a private placement	15,900,000
Issued pursuant to a private placement	14,000,000
Balance at June 30, 2014	36,900,000

## Warrant activity - 2014

On February 24, 2014, the Company completed a private placement in connection with which it issued 15,900,000 warrants. The warrants are exercisable at a price of \$0.05 per share for a period of eighteen months from the date of issue. The following assumptions were used to estimate the fair value (\$477,000) of these warrants: dividend yield – nil; expected volatility – 158%; risk free rate of return 1.05%; life – 1.5 years.

On March 28, 2014, the Company completed a private placement in connection with which it issued 14,000,000 warrants. The warrants are exercisable at a price of \$0.05 per share for a period of eighteen months from the date of issue. The following assumptions were used to estimate the fair value (\$280,000) of these warrants: dividend yield – nil; expected volatility – 158%; risk free rate of return 1.05%; life – 1.5 years.

### Warrant activity - 2013

On February 19, 2013, the Company completed a private placement in connection with which it issued 1,041,666 warrants. The warrants are exercisable at a price of \$0.25 per share for a period of six months from the date of issue. The following assumptions were used to estimate the fair value (\$10,417) of these warrants: dividend yield – nil; expected volatility – 136%; risk free rate of return 1.49%; weighted average life – 0.5 years.

On December 19, 2013, the Company completed a private placement in connection with which it issued 7,000,000 warrants. The warrants are exercisable at a price of \$0.05 per share for a period of eighteen months from the date of issue. The fair value of the warrants was estimated at \$140,000 using the Black Scholes pricing model under the following assumptions: dividend yield – nil; expected volatility – 174%; risk free rate of return 2.36%; weighted average life – 1.5 years.

The following table summarizes warrants outstanding at June 30, 2014:

### Warrants

Date of expiry	Outstanding	Exercise price
19-Jun-15	7,000,000	\$0.05
24-Aug-15	15,900,000	\$0.05
28-Sep-15	14,000,000	\$0.05
_	36,900,000	

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# (d) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. Options granted under the plan vest at the time of the grant. The options are non-transferable if not exercised.

The following table summarizes stock option activity for the three and six months ended June 30, 2014:

		Weighted average
	Number	exercise price
Balance at December 31, 2012	6,282,500	\$0.38
Expired	(180,000)	
Cancelled/Forfeited	(4,860,000)	
Balance at December 31, 2013 and June 30, 2014	1,242,500	\$0.39

The following table provides details of options outstanding at June 30, 2014:

Date of grant	Number of options outstanding	Exercise price	Remaining life (yrs)	Date of Expiry	Exercisable Options
Oct 26, 2010	285,000	\$0.35	1.57 years	Oct 26, 2015	285,000
Nov 1, 2011	957,500	\$0.40	2.59 years	Nov 1, 2016	957,500
Total	1,242,500		-		1,242,500

# 7. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2014, the Company had the following related party transactions:

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company and/or their holding companies. As at June 30, 2014 compensation in the amount of \$128,416 (2013 - \$150,747) was paid or payable to key management. Included in accounts payable and accrued liabilities at June 30, 2014 was \$5,000 (2013 - \$58,385) owing to key management.

During the six months ended June 30, 2014 related parties provided working capital loans to the company totalling \$61,521 (2013 – 161,531). The loans were provided by three directors; \$56,521 has been re-paid, and the balance of the working capital loans (\$5,000) remained outstanding at June 30, 2014.

Desafio Minero, a company owning in excess of 50% of the outstanding common shares of the Company, acquired a total of 36,000,000 units issued under the February 24, 2014 and March 28, 2014 private placements.

Two directors each acquired 1,000,000 units issued under the February 24, 2014 private placement.

### 8. SEGMENTED REPORTING

The Company operates in one geographic centre and is organized into business units based on mineral

# NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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properties. It has one reportable operating segment, being that of exploration and evaluation activities in Colombia.

### 9. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base with the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company ensures as much as possible that it will have sufficient liquidity to meet liabilities when due. The Company considers its capital structure to include working capital, loans, and common share capital. In order to maintain or adjust the capital structure, the Company may from time to time secure loans, issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected working capital levels. The Company has not changed its policy from prior years.

On May 20, 2014, the Company announced that it had secured a US\$5,000,000 loan from Desafio Minero S.A.C., Antioquia's largest shareholder, the proceeds of which will be used to fund further development of its Cisneros Project to take it to a production stage.

#### 10. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, market risk, foreign currency risk, commodity price risk, interest rate risk and fair value.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. Management identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

# Credit risk

Cash and cash equivalent consist of bank balances and short term deposits maturing in less than one year. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. At June 30, 2014 cash deposits were concentrated at one major Canadian Chartered bank.

The carrying amount of accounts receivable and cash and cash equivalent represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2014, and did not provide for any doubtful accounts nor was it required to write off any receivables during the six months ended June 30, 2014.

### Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates, and liquidity will affect the Company's net income or the value of financial instruments. The objective of market risk management is to mitigate risk exposures within acceptable limits, while maximizing returns.

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# Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain transactions are denominated in Colombian Pesos and United States of America dollars.

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars and US dollars. The Company funds major exploration expenses in Colombia pesos. If the Colombian peso appreciated by 10%, the Company's net loss would increase by approximately \$73,000 and total assets would increase by approximately the same amount. If the Colombian peso depreciated by 10%, the Company's net loss would decrease by approximately \$73,000 and total assets would decrease by approximately the same amount.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions without incurring unacceptable losses, relinquishment of properties or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary to provide current cash flow estimates. The Company also utilizes authorizations for expenditures on projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has raised capital through the issuance of common shares. Additional financing will be required to complete planned capital programs. The Company's financial liabilities as at June 30, 2014, consist of accounts payable and accrued liabilities.

### Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact the Company's financial results. Lower commodity prices can reduce the Company's ability to raise capital. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand.

Commodity prices, and in particular gold spot prices, fluctuate and are affected by factors outside of the Company's control. The current and expected future spot prices have a significant impact on the market sentiment for investment in mineral exploration companies and may impact the Company's ability to raise equity financing for its ongoing working capital requirements.

## Interest rate

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 interest rate risk is minimal as there are no interest-bearing outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

# Fair value

Fair value is determined using the following methods and assumptions:

The carrying value of cash and cash equivalents, accounts receivable, investment certificates, taxes receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

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All financial instruments that are measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

- Level 1 inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.
- Level 3 one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments

### 11. COMMITMENTS AND CONTINGENCY

The Company has the following commitments under agreements entered into:

- (a) The Company has entered into a consulting agreement with an executive officer pursuant to which he receives a fee of up to US\$20,000 per month based on days worked. If the contract is terminated by the Corporation without cause, depending on the circumstances, the Corporation will be liable to a termination payment of up to a maximum of US\$120,000. The contract renews annually on February 1st of each year unless written notice is provided by either party.
- **(b)** The Company has entered into a consulting agreement with an executive officer, pursuant to which he receives a fee of \$4,000 per month. The contract can be terminated by the Corporation and the officer, at any time on 30 days' notice.
- (c) On July 19, 2010, the Company entered into an office lease agreement for approximately \$6,500 per month for a period of five years commencing September 1, 2010 and ending August 31, 2015. The Company sublet the office space effective February 1, 2011 for the duration of the lease at a net loss of \$212 per month.
- (d) Effective March 1, 2010 the Company adopted a resolution whereby each Director, that is not a Named Executive Officer "NEO", is to be paid a \$1,500 per month fee to be earned at the time that any stock options or warrants are exercised by the director. The Director will be required to pay for the stock options or warrants exercised in full at the time of exercise. Upon exercise and payment of the stock options or warrants, the Director will then receive payment for contingent Directors' fees to date, which amount shall not exceed the amount of the exercise of stock options or warrants. This amount represents a contingent liability and will only be paid to a Director under the following conditions; 1) they continue to be a Director, 2) they pay for the options and warrants exercised in full at the time of exercise, and 3) they exercise their options and warrants. The potential commitment at June 30, 2014 is \$87,000 (2013 \$144,000).