COLOMBIA CREST
GOLD CORP

**Consolidated Financial Statements**

**For the Year Ended September 30, 2012**

**(Expressed in Canadian Dollars)**

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# Independent Auditor's Report

**To the shareholders of Colombia Crest Gold Corp.**

We have audited the accompanying financial statements of Colombia Crest Gold Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, the consolidated statements of comprehensive loss, cash flows and changes in equity, for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 presentation of the 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 Colombia Crest Gold Corp. and its subsidiaries as at September 30, 2012, September 30, 2011 and October 1, 2010 and its financial performance and cash flows for the years ended September 30, 2012 and September 30, 2011, in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that as at September 30, 2012 the Company had an accumulated deficit of $75,572,767. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Accountants
Vancouver, BC
January 24, 2013

**Colombia Crest Gold Corp.**
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| As at, | September 30 2012 $ | September 30 2011 (Note 16) $ | October 1 2010 (Note 16) $ |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash | 1,546,853 | 3,451,530 | 853,679 |
| Receivables | 20,910 | 39,564 | 32,221 |
| Prepaid expenses and deposits - Note 7 | 145,592 | 67,113 | 27,491 |
| | 1,713,355 | 3,558,207 | 913,391 |
| **Non-current** | | | |
| Property, plant and equipment - Note 5 | 108,519 | 65,520 | 39,427 |
| Drilling deposit | 90,346 | - | - |
| Exploration and evaluation assets - Note 6 | 9,939,127 | 14,387,706 | 36,826,263 |
| | 11,851,347 | 18,011,433 | 37,779,081 |
| **Liabilities** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities – Note 7 | 337,779 | 296,414 | 585,674 |
| | 337,779 | 296,414 | 585,674 |
| **Non-current** | | | |
| Decommissioning liabilities | 80,000 | 80,000 | 80,000 |
| Warrants denominated in a foreign currency - Note 8 (d) | - | 27,559 | 966,970 |
| | 417,779 | 403,973 | 1,632,644 |
| **Shareholders' Equity** | | | |
| Share capital - Note 8 (a) | 79,783,706 | 76,337,456 | 70,230,435 |
| Share subscriptions - Note 8 (e) | 1,156,000 | 1,156,000 | 1,156,000 |
| Contributed surplus - Note 8 (f) | 5,991,735 | 5,465,313 | 4,481,337 |
| Cumulative translation adjustment | 74,894 | 3,177,506 | - |
| Accumulated deficit | (75,572,767) | (68,528,815) | (39,721,335) |
| | 11,433,568 | 17,607,460 | 36,146,437 |
| | 11,851,347 | 18,011,433 | 37,779,081 |

Signed on behalf of the Board of Directors by:

*"Thomas Pladsen"* Director
Thomas Pladsen

*"Carl Hansen"* Director
Carl Hansen

The accompanying notes are an integral part of these consolidated financial statements

Colombia Crest Gold Corp.
Consolidated Statements of Comprehensive Loss
For The Years Ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

| | 2012<br>$ | 2011 (Note 16)<br>$ |
|---|---|---|
| **Expenses:** | | |
| Accounting and audit | 119,196 | 61,830 |
| Administration - Note 7 | 138,000 | 120,000 |
| Advertising | 15,150 | 6,999 |
| Amortization | 2,300 | 4,511 |
| Bank charges | 4,042 | 3,339 |
| Consulting | 24,356 | 119,235 |
| Corporate development - Note 7 | 198,073 | 237,247 |
| Filing fees | 38,089 | 48,859 |
| Foreign exchange loss | 25,479 | 19,560 |
| Insurance | 33,303 | 22,492 |
| Legal | 32,774 | 130,768 |
| Management fees - Note 7 | 199,562 | 177,190 |
| Office and printing | 89,317 | 66,497 |
| Shareholders information | 10,453 | 8,870 |
| Stock-based compensation – Notes 7 and 8 | 521,385 | 646,519 |
| Transfer agent | 12,108 | 13,759 |
| Travel and promotion | 219,195 | 154,057 |
| General exploration | 296,285 | 85,584 |
| **Loss before other items** | (1,979,067) | (1,927,316) |
| | | |
| **Other items:** | | |
| Due diligence on general mineral property | - | (131,646) |
| Maintenance of mineral property - Note 6 | (226,959) | - |
| Write-off of exploration and evaluation assets - Note 6 | (4,938,801) | (27,935,204) |
| Gain on sale of property, plant & equipment | 38,456 | 217,957 |
| Gain on revaluation of foreign currency denominated warrants | 27,559 | 939,411 |
| Interest income | 34,860 | 29,318 |
| **Net loss and comprehensive loss for the year** | (7,043,952) | (28,807,480) |
| | | |
| Loss per common share | ($0.08) | ($0.43) |
| Weighted-average number of common shares outstanding | 84,604,874 | 66,843,347 |

The accompanying notes are an integral part of these consolidated financial statements

**Colombia Crest Gold Corp.**
Consolidated Statements of Cash Flows
For The Years Ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

| | 2012<br>$ | 2011 (Note 16)<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Net loss for the year** | (7,043,952) | (28,807,480) |
| **Adjustments to reconcile loss to net cash used in operating activities:** | | |
| Amortization | 2,300 | 4,511 |
| Amortization charged to general exploration | 1,819 | - |
| Foreign exchange loss due to rate adjustment | 215 | - |
| Gain on property plant and equipment | (38,456) | (217,957) |
| Gain on revaluation of foreign currency denominated warrants | (27,559) | (939,411) |
| Interest income | (34,860) | (29,318) |
| Shares issued for corporate finance fees | - | 30,000 |
| Stock-based compensation | 521,385 | 646,519 |
| Write-off of mineral property | 4,938,801 | 27,935,204 |
| | (1,680,307) | (1,377,932) |
| Net change in non-cash working capital items: | | |
| Receivables | 18,654 | (7,343) |
| Prepaid expenses and deposits | (78,479) | (39,622) |
| Accounts payable and accrued liabilities | 41,365 | (89,259) |
| **Cash used in operating activities** | (1,698,767) | (1,514,156) |
| **Investing activities** | | |
| Property, plant and equipment expenditures | (77,936) | (44,088) |
| Proceeds on sale of property, plant and equipment | 49,589 | 223,623 |
| Exploration and evaluation and drilling costs | (3,632,423) | (2,075,053) |
| Interest income | 34,860 | 29,318 |
| **Cash used in investing activities** | (3,625,910) | (1,866,200) |
| **Financing activities** | | |
| Proceeds from shares issuance | 3,420,000 | 6,432,778 |
| Costs of issue of shares | - | (454,571) |
| **Cash from financing activities** | 3,420,000 | 5,978,207 |
| **Change in cash in the year** | (1,904,677) | 2,597,851 |
| **Cash, beginning of year** | 3,451,530 | 853,679 |
| **Cash, end of year** | 1,546,853 | 3,451,530 |

**Non-cash transactions – Note 14**

**Colombia Crest Gold Corp.**
Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

| | Share Capital Number of Common Shares | Amount $ | Shares Subscribed $ | Contributed Surplus $ | Cumulative Translation Adjustment $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Balance - October 1, 2010** | 51,031,190 | 70,230,435 | 1,156,000 | 4,481,337 | - | (39,721,335) | 36,146,437 |
| Shares issued for private placement | 21,442,594 | 6,432,778 | - | - | - | - | 6,432,778 |
| Shares issued for option on property | 569,922 | 200,871 | - | | - | - | 200,871 |
| Shares issued for corporate financing fees | 100,000 | 30,000 | - | - | - | - | 30,000 |
| Shares issued for finders' fees | 400,000 | 200,000 | - | - | - | - | 200,000 |
| Warrants issued for option on property | - | - | - | 35,400 | - | - | 35,400 |
| Expiry of escrow shares cancelled | (18,750) | (1,875) | - | 1,875 | - | - | - |
| Issue costs | - | (754,753) | - | - | - | - | (754,753) |
| Agents' warrants issued | - | - | - | 300,182 | - | - | 300,182 |
| Stock-based compensation | - | - | - | 646,519 | - | - | 646,519 |
| Currency translation adjustment | - | - | - | - | 3,177,506 | - | 3,177,506 |
| Loss for the year | - | - | - | - | - | (28,807,480) | (28,807,480) |
| **Balance - September 30, 2011** | 73,524,956 | 76,337,456 | 1,156,000 | 5,465,313 | 3,177,506 | (68,528,815) | 17,607,460 |
| Shares issued for private placement | 12,000,000 | 3,420,000 | - | - | - | - | 3,420,000 |
| Shares issued for option on property | 125,000 | 26,250 | - | - | - | - | 26,250 |
| Warrants issued for option on property | - | - | - | 5,037 | - | - | 5,037 |
| Stock-based compensation expense | - | - | - | 521,385 | - | - | 521,385 |
| Currency translation adjustment | - | - | - | - | (3,102,612) | - | (3,102,612) |
| Loss for the year | - | - | - | - | - | (7,043,952) | (7,043,952) |
| **Balance - September 30, 2012** | 85,649,956 | 79,783,706 | 1,156,000 | 5,991,735 | 74,894 | (75,572,767) | 11,433,568 |

The accompanying notes are an integral part of these consolidated financial statements

## 1. Corporate Information

Colombia Crest Gold Corp.'s business activity is the exploration and evaluation of mineral properties in Bolivia and Colombia. Colombia Crest Gold Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on January 20, 1981 and its common shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol CLB, and on the Frankfurt Stock Exchange under the symbol EAT and on the US OTC under the symbol ECRTF.

The address of the Company's corporate office and principal place of business is Suite 300, 1055 West Hastings Street, Vancouver, BC Canada.

## 2. Basis of Preparation

### a) Statement of compliance

These consolidated financial statements of the Company for the year ended September 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Previously, the Company prepared its annual financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

These consolidated financial statements including comparatives have been prepared on the basis of IFRS standards that are effective or available for early adoption.

The preparation of these consolidated financial statements, the Company's first in accordance with IFRS, resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at October 1, 2010 for the purposes of the transition to IFRS as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 16.

These statements were authorized for issue by the Board of Directors on January 24, 2013.

### b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of certain derivative financial instruments, and have been prepared using the accrual basis of accounting.

The preparation of financial statements in conformity with IAS 34 requires management to make critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

## 2. Basis of Preparation – (cont'd)

### c) Basis of Consolidation

The consolidated financial statements include all subsidiaries of the Company. Subsidiaries are entities over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases. All significant inter-company transactions and balances have been eliminated.

These consolidated financial statements include the accounts of Colombia Crest Gold Corp. ("the parent Company) and its wholly owned subsidiaries Eaglecrest Exploration Bolivia SA ("EEB"), a company incorporated in Bolivia, Eaglecrest Explorations Panama Corp. ("EEP"), a company incorporated in Panama City, Panama, and EEP's wholly owned subsidiary, Colombiana de Oro SA ("Colombiana"), a company incorporated in Panama City, Panama, as well as the branch office operations of Colombiana.

### d) Going Concern of Operations

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to develop profitable operations. At September 30, 2012, the Company had not yet achieved profitable operations, has an accumulated deficit of $75,572,767 and expects to incur further losses in the development of its business. These conditions indicate the existence of material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon economic and market factors which involve uncertainties including the Company's ability to raise adequate equity financing for continuing operations. Realization values may be substantially different from carrying values as show and accordingly these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

## 3. Summary of Significant Accounting Policies

### a) Foreign Currency Translation

The functional and presentation currency of the parent Company is the Canadian dollar. The functional currency of EEB is the US dollar and the Canadian dollar for EEP and Colombiana. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at carrying value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the statement of operations.

## 3. Summary of Significant Accounting Policies (cont'd)

### a) Foreign Currency Translation (cont'd)

Where the functional currency is different from the presentation currency, the assets and liabilities of that subsidiary are translated into Canadian dollars using the exchange rate at the reporting date and the income statement is translated into Canadian dollars using the average exchange rate for the period. All gains and losses on translation of a subsidiary from the functional currency to the presentation currency are charged to other comprehensive income.

### b) Financial Instruments

***Financial Assets***

Financial assets are classified into the following category based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy is as follows:

***Loans and Receivables***

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

***Impairment on Financial Assets***

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

***Financial Liabilities***

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid.

## 3. Summary of Significant Accounting Policies (cont'd)

### c) Mineral Exploration and Evaluation Expenditures

***Pre-exploration costs***

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

***Exploration and Evaluation Expenditures***

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transfee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

## 3. Summary of Significant Accounting Policies (cont'd)

### d) Property, plant and Equipment

Property, plant and equipment are recorded 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, plant 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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Amortization is calculated on a declining balance basis at the following annual rates: furniture and equipment – 20%; field equipment – 30%; and vehicles – 30%. Property, plant and equipment acquired in a fiscal year are amortized at one-half of the annual rate.

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

### e) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. 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, share subscriptions and warrants denominated in the functional currency are classified as equity instruments.

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

Common shares issued for non-monetary consideration are recorded at their market value based upon the trading price of the Company's common shares on the TSXV on the date of share issuance.

### f) Share-based Payment

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss 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.

## 3. Summary of Significant Accounting Policies (cont'd)

### f) Stock-based Payment (cont'd)

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 statement of comprehensive loss 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 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 the statement of 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 share-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 share-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.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense

### g) Loss per share

Basic loss per common share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

### h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

## 3. Summary of Significant Accounting Policies (cont'd)

### h) Income taxes (cont'd)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### i) 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 year 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 exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks

Additional environment 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.

### j) Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after October 1, 2011 or later years. The following standards and interpretations have been issued but are not yet effective:

- IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to 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. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. Management is in the process of evaluating the impact of the new standard on the Company.

## 3. Summary of Significant Accounting Policies (cont'd)

### j) Standards, Amendments and Interpretations Not Yet Effective (cont'd)

- IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 13 Fair Value MeasurementIFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments 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.

## 4. Critical Accounting Estimates and Judgments (cont'd)

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

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 financial statements within the next financial year are discussed below:

**i)** Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures 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 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 period the new information becomes available.

In determining the impairment provision on the San Simon property (Note 6), the Company estimated the amount recoverable using expected cash flows with a discount rate of 1.5% pursuant to a sales agreement entered into subsequent to September 30, 2012.

**ii)** Title to Mineral Properties Interest

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.

**iii)** 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 stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8.

(Expressed in Canadian Dollars)

## 5. Property, Plant and Equipment

| | Furniture & Equipment $ | Field Equipment $ | Vehicles $ | Total $ |
|---|---|---|---|---|
| **Cost** | | | | |
| As at October 1, 2010 | 105,408 | 40,964 | 73,748 | 220,120 |
| Additions | 3,808 | - | 40,280 | 44,088 |
| Disposition | (906) | - | (4,760) | (5,666) |
| **As at September 30, 2011** | 108,310 | 40,964 | 109,268 | 258,542 |
| Additions | 8,857 | - | 69,079 | 77,936 |
| Disposition and write-offs | (18,952) | - | (17,640) | (36,592) |
| Foreign exchange movement | 9 | - | (224) | (215) |
| **As at September 30, 2012** | 98,224 | 40,964 | 160,483 | 299,671 |
| | | | | |
| **Accumulated depreciation** | | | | |
| As at October 1, 2010 | 83,946 | 39,894 | 56,853 | 180,693 |
| Additions | 5,682 | 321 | 6,326 | 12,329 |
| **As at September 30, 2011** | 89,628 | 40,215 | 63,179 | 193,022 |
| Additions | 4,243 | 225 | 18,075 | 22,543 |
| Disposition and write-offs | (13,356) | - | (11,057) | (24,413) |
| **As at September 30, 2012** | 80,515 | 40,440 | 70,197 | 191,152 |
| | | | | |
| **Net book value** | | | | |
| **As at October 1, 2010** | 21,462 | 1,070 | 16,895 | 39,427 |
| **As at September 30, 2011** | 18,682 | 749 | 46,089 | 65,520 |
| **As at September 30, 2012** | 17,709 | 524 | 90,286 | 108,519 |

## 6. Exploration and Evaluation Assets

The Company's exploration properties are located in Bolivia and Colombia, South America and its interest in these resource properties is maintained pursuant to agreements with the titleholders. Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties.

(Expressed in Canadian Dollars)

## 6. Exploration and Evaluation Assets – (cont'd)

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

| | Bolivia | | Colombia | | Total |
|---|---|---|---|---|---|
| | San Simon | Dona Amelia | Fredonia | Venecia | |
| | $ | $ | $ | $ | $ |
| **Costs:** | | | | | |
| **Balance - October 1, 2010** | 12,853,618 | 24,516,781 | 822,762 | - | 38,193,161 |
| Acquisition costs | 27,842 | 50,944 | 469,249 | 150,228 | 698,263 |
| Exploration costs | 610,403 | 383,431 | 432,499 | 215,595 | 1,641,928 |
| Foreign exchange movement | 133,386 | 3,044,120 | - | - | 3,177,506 |
| **Balance - September 30, 2011** | 13,625,249 | 27,995,276 | 1,724,510 | 365,823 | 43,710,858 |
| Acquisition costs | 6,504 | - | 167,467 | 177,328 | 351,299 |
| Exploration costs | 366,690 | - | 883,936 | 1,990,909 | 3,241,535 |
| Foreign exchange movement | (3,102,612) | - | - | - | (3,102,612) |
| **Balance - September 30, 2012** | 10,895,831 | 27,995,276 | 2,775,913 | 2,534,060 | 44,201,080 |
| **Impairment write-offs:** | | | | | |
| **Balance - October 1, 2010** | (1,313,474) | (53,424) | - | - | (1,366,898) |
| Write-offs | (14,402) | (27,941,852) | - | - | (27,956,254) |
| **Balance - September 30, 2011** | (1,327,876) | (27,995,276) | - | - | (29,323,152) |
| Write-offs | (4,938,801) | - | - | - | (4,938,801) |
| **Balance - September 30, 2012** | (6,266,677) | (27,995,276) | - | - | (34,261,953) |
| **Carrying values:** | | | | | |
| **Carrying value - October 1, 2010** | 11,540,144 | 24,463,357 | 822,762 | - | 36,826,263 |
| **Carrying value - September 30, 2011** | 12,297,373 | - | 1,724,510 | 365,823 | 14,387,706 |
| **Carrying value - September 30, 2012** | 4,629,154 | - | 2,775,913 | 2,534,060 | 9,939,127 |

Bolivia:

<u>San Simon and Dona Amelia</u>

Pursuant to an agreement (the "San Simon Agreement") executed in fiscal 1999 and subsequently amended, the Company owns the right to acquire 100% of all production from 11 mineral concessions. These 11 mineral concessions are subject to a 3% net smelter returns royalty, of which the Company can purchase 1% for US$500,000 and a second 1% for US$750,000.

In April, 2003, pursuant to an agreement with San Simon Resources Ltd. ("SSR") the Company acquired from SSR an 80% interest in production from 7 non-core mineral concessions and the right to acquire one additional mineral concession (known as the California concession). The Company also entered into a separate agreement in June, 2003 with the underlying owner of the California concession whereby it obtained a 100% interest in this concession.

(Expressed in Canadian Dollars)

## 6. Exploration and Evaluation Assets – (cont'd)

Bolivia: - (cont'd)

San Simon and Dona Amelia – (cont'd)

These concessions are subject to a 3% net smelter returns royalty, of which the Company can purchase 1% for US$500,000 and a second 1% for US$1,000,000.

During the year ended September 30, 2011, based on the results of exploration activities, management had decided not to invest any further funding in the Dona Amelia property and wrote off $27,935,204 in exploration and evaluation assets.

During the year ended September 30, 2012, $226,959 expended in up-keeping and maintaining Dona Amelia properties was expensed. Management had decided not to continue further development of the San Simon Zone properties and wrote the carrying value down to its estimated fair value of $4,629,154. The fair value was determined by estimated cash flows to be received pursuant to a sale agreement entered into after September 30, 2012 (Note 15). As at September 30, 2012, exploration and evaluation assets of $4,938,801 were written off on the San Simon Zone.

Colombia:

Fredonia

Pursuant to an agreement dated August 13, 2010, the Company has an option to acquire up to a 75% interest in the mineral title of the 15,000 hectare Fredonia Area located in Antioquia, Colombia, for consideration of US$87,500, the issuance of 1,319,922 shares, 1,000,000 warrants and exploration expenditures of US$2,832,500 as follows:

| Date | Expenditures US$ | | Common Shares / Warrants Issued | Cash US$ | Interest Earned |
|---|---|---|---|---|---|
| Upon signature of agreement | 52,500 | (cash paid) | - | 10,000 (paid) | - |
| By September 28, 2010 | 97,500 | (paid via issuance of 319,922 shares) | 1,000,000 shares and 1,000,000 warrants (i) (issued) | - | - |
| By October 28, 2010 | 32,500 | (ii) | 319,922 shares (issued) | - | - |
| By March 28, 2011 | 47,500 | (incurred) | - | 50,000 (paid) | 12.5% |
| By September 28, 2011 | - | | - | 27,500 (paid) | 25.0% |
| By March 28, 2012 (iii) | 902,500 | (incurred) | - | - | - |
| By March 28, 2013 (iii) | 1,100,000 | | - | - | 50.0% |
| By March 28, 2014 (iii) | 600,000 | | - | - | 50.0% |
| Total | 2,832,500 | | | 87,500 | 50.0% |
| By March 28, 2019, upon completion of a positive feasibility study | | | | | 75.0% |

## 6. Exploration and Evaluation Assets – (cont'd)

Colombia: - (cont'd)

Fredonia - (cont'd)

(i) Each warrant exercisable to purchase an additional common share at $0.40 per share expiring September 28, 2012. Warrants were expired without exercise.

(ii) Reimbursement to optionor for taxes paid. By agreement with both parties, time for payment was extended to January, 2011 (paid).

(iii) By an amendment agreement dated August 16, 2011, time stipulated was extended for six months.

In the event that any of the above-noted expenditures are not made within the timeframe specified above, the Company will be required to pay the portion of expenditures unspent directly to the optionor in cash.

By June 27, 2014 (extended by six months by an amendment agreement dated August 16, 2011) the Company must deliver to the optionor written notice (the "Study Notification") of the Company's intention to fund the preparation of a feasibility study, which must be completed by June 27, 2019 (extended by six months by an amendment agreement dated August 16, 2011). In order to maintain its right to earn a 75% interest, the optionor must incur a minimum in exploration expenses of US$250,000 during each one year period after the Study Notification until the earlier of: (i) completion of the Feasibility Study; or (ii) the end of such five year period.

In the event the Company does not meet this expenditure requirement in any such one year period, the Company may maintain its right to earn a 75% interest by issuing common shares to the Optionor with a value equivalent to the difference between the amount spent during that year and the US$250,000 minimum, provided that such common shares shall be valued at the closing price on the TSXV on the last trading day before the applicable anniversary of the Study Notification date.

After completion of a feasibility study (National Instrument 43-101 compliant), each party will be required to fund its pro-rata share of development costs. During the duration of the agreement, the Company will be responsible for all expenditures related to concession maintenance, including canon payments and insurance policies.

Upon acquisition of a 75% interest in the Fredonia Property, the parties will form a 75/25 joint venture and funding of further exploration and development of the project will be based on the parties' percentage interest. If the optionor chooses not to contribute to funding such work its interest will be diluted, based on an industry standard dilution formula, to a minimum 2.5% net smelter royalty.

(Expressed in Canadian Dollars)

## 6. Exploration and Evaluation Assets – (cont'd)

Colombia: - (cont'd)

Venecia

Pursuant to an agreement dated March 30, 2011, the Company has an option to acquire up to a 75% interest in the mineral title of the 1,985 hectare Venecia Property located in Antioquia, Colombia, for consideration of US$535,000, the issuance of 625,000 units, which each unit consisting of one common share and one share purchase warrant, and exploration expenditures of US$3,000,000 as follows:

| Date | Expenditures US$ | Common Shares / Warrants Issued | Cash US$ | Interest Earned |
|---|---|---|---|---|
| Upon signature of the LOI (September 30, 2010 - paid) | - | | 30,000 (i) | - |
| By April 14, 2011 | 50,000 (incurred) | - | - | - |
| By April 21, 2011 | | 250,000 shares and 250,000 warrants (ii) (issued) | - | 12.5% |
| By March 30, 2012 | 950,000 (incurred) | 125,000 shares and 125,000 warrants (ii) (issued) | 80,000 (paid) | 25.0% |
| By March 30, 2013 | 1,000,000 | 125,000 shares and 125,000 warrants (iii) | 75,000 | 37.5% |
| By March 30, 2014 | 1,000,000 | 125,000 shares and 125,000 warrants (iii) | 350,000 | 75.0% |
| Total | 3,000,000 | | 535,000 | 75.0% |

(i) By agreement with both parties, time for payment was extended to December 20, 2011 (paid).

(ii) Each warrant has an exercise price of $0.4375 per share with 250,000 expiring April 15, 2013 and 125,000 expiring March 23, 2014.

(iii) Each warrant will have an exercise price equal to the greater of the closing price of the Company's common shares at the date of execution or $0.4375 per share. The warrants will have an expiry date of two years after their date of issue.

In the event that any of the above-noted expenditures are not made within the timeframe specified above, the Company will be required to pay the portion of expenditures unspent directly to the optionor in cash.

Upon acquisition of a 75% interest in the Venecia Project, the parties intend to form a 75/25 joint venture and funding of further exploration and development of the project will be based on the parties' percentage interest. Or, the optionor can choose to sell its interest in the project at its fair market value or have the Company fund the optionor's share of expenses, in which event, the Company will receive 100% of proceeds from production until it has been repaid such funds plus interest at the US prime rate plus 5%.

(Expressed in Canadian Dollars)

## 7. Related Party Transactions

Key management personnel are persons responsible for the planning, directing and controlling the activities of the entity. The Company's key management personnel included the CEO, CFO, VP of Exploration and VP Business Development and their compensation is as follow:

| | For the years ended September 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Management fees | 199,562 | 177,190 |
| Administration fees | 138,000 | 120,000 |
| Corporate development | - | 12,000 |
| Geological consulting fees | 197,457 | 176,094 |
| Total | 535,019 | 485,284 |

In addition, share purchase options were also granted to management and directors. Their value, as determined in Note 8(c), is as follows:

| | For the year ended September 30, 2012 | | For the year ended September 30, 2011 | |
|---|---|---|---|---|
| | Number of Options | Value | Number of Options | Value |
| | | $ | | $ |
| CEO | 900,000 | 167,400 | 400,000 | 118,920 |
| CFO | 200,000 | 37,200 | 200,000 | 59,460 |
| Officer | 300,000 | 40,600 | 250,000 | 34,410 |
| Directors | 850,000 | 158,100 | 1,100,000 | 327,030 |
| Total | 2,250,000 | 403,300 | 1,950,000 | 539,820 |

Related party liabilities included in trade and other payable are as follows:

| | As at September 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Amounts due to management: | | |
| Administration fees | 12,000 | 10,000 |
| Geological consulting fees | 28,134 | 20,882 |
| Expenses and other | 5,807 | 4,344 |
| Total | 45,941 | 35,226 |

(Expressed in Canadian Dollars)

**7. Related Party Transaction** – (cont'd)

Included in the prepaid expenses and deposits are travel expense advances to management:

| | As at September 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Travel expenses | 29,674 | 10,000 |
| Total | 29,674 | 10,000 |

These transactions are measured by the exchange amount which are the amounts agreed upon by the transacting parties. These amounts due to related parties are unsecured, non-interest bearing and due on demand.

**8. Share Capital**

**a) Authorized:**

Authorized share capital consists of an unlimited number of common shares without par value.

**b) Issued:**

| | Number of Common Shares | Share Capital $ |
|---|---|---|
| Balance - October 1, 2010 | 51,031,190 | 70,230,435 |
| Issued: | | |
| Shares issued via private placement | 21,442,594 | 6,432,778 |
| Shares issued for finders' fees | 400,000 | 200,000 |
| Shares issued for corporate financing fees | 100,000 | 30,000 |
| Shares issued for option on property | 569,922 | 200,871 |
| Escrow shares cancelled | (18,750) | (1,875) |
| Issue costs | - | (754,753) |
| Balance - September 30, 2011 | 73,524,956 | 76,337,456 |
| Issued: | | |
| Shares issued via private placement | 12,000,000 | 3,420,000 |
| Shares issued for option on property | 125,000 | 26,250 |
| Balance - September 30, 2012 | 85,649,956 | 79,783,706 |

During the year ended September 30, 2012, the Company issued common shares pursuant to a non-brokered private placement of 12,000,000 units at a price of $0.285 per unit for gross proceeds of $3,420,000. Each unit was comprised of one common share and one-half of a share purchase warrant. Each full warrant is exercisable to purchase one additional common share for $0.35 per share expiring October 31, 2013.

All proceeds from the above private placement were allocated to share capital with none allocated to warrants.

125,000 common shares valued at $26,250 (based on the closing trading price of the Company's common shares at the time of issuance) were issued in accordance to the Venecia option agreement.

**8. Share Capital** – (cont'd)

**b) Issued** (cont'd)**:**

During the year ended September 30, 2011, the Company issued common shares pursuant to a non-brokered private placement of 21,442,594 units at a price of $0.30 per unit for gross proceeds of $6,432,778. The first tranche, 11,478,258 units consisted of one common share and one share purchase warrant exercisable to purchase one additional common share for $0.45 until December 30, 2012, and the 2$^{nd}$ tranche, 9,964,336 units consisted of one common share and one share purchase warrant exercisable to purchase one additional common share for $0.45 until February 4, 2013; provided that if after the issuance of the warrants (for both tranches) the average closing trading price of the common shares is $0.75 or higher for a period of 20 consecutive trading days, the Company may issue a notice that the warrants must be exercised within 21 days of the date of the notice or they will expire at the end of that 21 day period. Cash of $454,571 has been paid and 1,495,239 agent share purchase warrants with a fair value of $300,182 have been issued as finders' fees. The 698,093 finders' fees warrants applicable to the first tranche have the same exercise terms as the first tranche private placement warrants. The remaining 797,146 finder's fees warrants have the same exercise term and expiry date as the second tranche private placement warrants except that the accelerate exercise clause does not apply. The fair value of finders' fees issued was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.39% - 1.42%; expected dividend yield – Nil; expected stock price volatility 83 % - 106%; and expected warrant life of 2.0 years.

As a corporate financing fee relative to the second tranche of the private placement, 100,000 units (100,000 common shares and 100,000 warrants) valued at $30,000 (based on the private placement subscription price of $0.30 per unit) were also issued. These corporate financing warrants have the same exercise terms as the second tranche of the private placement warrants.

The Company issued 569,922 common shares valued at $200,871 pursuant to two property option agreements. Also, 250,000 warrants valued at $35,400 were issued. Each warrant is exercisable to purchase one common share of the Company at $0.4375 until April 15, 2013. The property option warrants value was estimated using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate - 1.49%; expected dividend yield – Nil; expected stock price volatility - 90% and expected warrant life of 2.0 years.

The Company issued 400,000 finder's fee common shares valued at $200,000, which were previously accrued.

(Expressed in Canadian Dollars)

**8. Share Capital** – (cont'd)

**c) Stock options:**

The Company has a stock option plan whereby, the maximum number of common shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. Options vest at the date of grant, unless otherwise noted.

The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSXV). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option.

The continuity of share purchase options is as follows:

| | Number of Options | Weighted Average Exercise Price $ |
|---|---|---|
| Balance - October 1, 2010 | 2,400,000 | 1.36 |
| Granted | 3,100,000 | 0.45 |
| Expired | (30,000) | 2.70 |
| Cancelled | (200,000) | 0.80 |
| Balance - September 30, 2011 | 5,270,000 | 0.82 |
| Granted | 2,950,000 | 0.35 |
| Expired | (400,000) | 2.70 |
| Cancelled | (100,000) | 1.20 |
| Balance - September 30, 2012 | 7,720,000 | 0.54 |

(Expressed in Canadian Dollars)

**8. Share Capital** – (cont'd)

**c) Stock options:** – (cont'd)

Details of stock options outstanding at September 30, 2012:

| Number of Options | | | | | |
|---|---|---|---|---|---|
| Outstanding | | Exercisable | Option Price $ | Expiry Date | Remaining Life (years) |
| *85,000 | | 85,000 | 1.80 | January 8, 2013 | 0.27 |
| 250,000 | | 250,000 | 0.45 | February 8, 2013 | 0.36 |
| 200,000 | (i) | 200,000 | 0.45 | February 9, 2013 | 0.36 |
| 200,000 | | 200,000 | 1.20 | May 29, 2013 | 0.66 |
| 550,000 | | 550,000 | 0.45 | June 13, 2013 | 0.70 |
| 200,000 | (ii) | 200,000 | 0.45 | June 13, 2013 | 0.70 |
| 150,000 | | 150,000 | 0.45 | August 25, 2013 | 0.90 |
| 50,000 | (iii) | 50,000 | 0.24 | August 25, 2013 | 0.90 |
| 50,000 | | 50,000 | 0.60 | January 19, 2015 | 2.30 |
| 1,335,000 | | 1,335,000 | 1.00 | January 19, 2015 | 2.30 |
| 450,000 | | 450,000 | 0.35 | May 14, 2015 | 2.62 |
| 1,700,000 | | 1,700,000 | 0.45 | February 8, 2016 | 3.36 |
| 2,500,000 | | 2,500,000 | 0.35 | November 14, 2016 | 4.13 |
| 7,720,000 | | 7,720,000 | | | 2.77 |

* All of which subsequently expired with none being exercised

(i) Vested over one year - 50,000 options exercisable every three months commencing May 9, 2011.
(ii) Vested over one year - 50,000 options exercisable every three months commencing September 13, 2011.
(iii) Vested over one year - 12,500 options exercisable every three months commencing November 25, 2011.

During the year ended September 30, 2012, the Company granted 2,950,000 options to officers and directors of the Company. The options were vested on the date of grant and the fair value was estimated using the Black-Scholes option pricing model:

| Date Granted | Number of Options | Exercise Price | Expiry Date | Fair Value |
|---|---|---|---|---|
| November 14, 2011 | 2,500,000 | $0.35 | November 14, 2016 | $0.19 |
| May 14, 2012 | 450,000 | $0.35 | May 14, 2015 | $0.10 |

Black-Scholes option pricing parameters with no dividend yield expected:

| Risk-Free Interest Rate | Expected Life ( Years) | Volatility Factor |
|---|---|---|
| 1.36% - 1.42% | 3 - 5 | 77% - 90% |

For the year ended September 30, 2012, a total stock-based compensation of $521,385 was recorded, of which, $514,315 pertained to the options granted during the current fiscal year and another $7,070 due to options granted in a prior year, but were vested during the current year.

**8. Share Capital** – (cont'd)

**c) Stock options:** – (cont'd)

During the year ended September 30, 2011, the Company granted 3,100,000 options to officers and directors of the Company. The options had various vesting terms ranging from vest on the date of grant to vest every three months commencing from the date of grant, with exercise price of $0.45 per share and expiry dates from February 8, 2013 to February 8, 2016. The Company recorded stock-based payments of $640,515 and the fair value was estimated using the Black-Scholes option pricing model with the following assumptions:

| Risk-Free Interest Rate | Expected Life ( Years) | Volatility Factor |
|---|---|---|
| 1.42% - 3.20% | 2 - 5 | 82% - 179% |

**d) Share Purchase Warrants Outstanding:**

Warrants with exercise price in US dollars:

| | Number of Warrants | Exercise Price $ |
|---|---|---|
| Balance - October 1, 2010 and September 30, 2011 | 4,481,900 | 1.00 |
| Warrants expired | (4,481,900) | 1.00 |
| Balance - September 30, 2012 | - | - |

Warrants denominated in a currency different from the functional currency of the Company meet the definition of a financial liability and accordingly are presented as such on the Company's consolidated statements of financial position and are fair valued at each reporting period using the binomial option valuation model. The US$ denominated warrants expired on August 13, 2012.

Warrants with exercise price in Canadian dollars:

| | Number of Warrants | Weighted Average Exercise Price $ |
|---|---|---|
| Balance - October 1, 2010 | 7,764,356 | 0.70 |
| Warrants issued via private placement | 21,442,594 | 0.45 |
| Warrants issued as finder's and corporate financing fees | 1,595,239 | 0.45 |
| Warrants issued for option on property | 250,000 | 0.45 |
| Balance - September 30, 2011 | 31,052,189 | 0.51 |
| Warrants issued via private placement | 6,000,000 | 0.35 |
| Warrants issued for option on property | 125,000 | 0.44 |
| Warrants expired | (1,065,400) | 0.41 |
| Balance - September 30, 2012 | 36,111,789 | 0.49 |

**8. Share Capital** – (cont'd)

**d) Share Purchase Warrants Outstanding:** (cont'd)

Details of purchase warrants (exercise price in Canadian dollars) outstanding at September 30, 2012:

| Number of Warrants | CDN $ Exercise Price | Expiry Date | Remaining Life (Years) |
|---|---|---|---|
| 1,100,000 | 0.75 | December 4, 2012 (i) | 0.18 |
| 1,060,000 | 0.75 | December 24, 2012 (ii) | 0.23 |
| 12,176,351 | 0.45 | December 30, 2012 (iii) | 0.25 |
| 10,064,336 | 0.45 | February 4, 2013 (iii) | 0.35 |
| 797,146 | 0.45 | February 4, 2013 | 0.35 |
| 250,000 | 0.44 | April 15, 2013 | 0.54 |
| 4,538,956 | 0.75 | May 10, 2013 (iv) | 0.61 |
| 6,000,000 | 0.35 | October 31, 2013 | 1.08 |
| 125,000 | 0.44 | March 23, 2014 | 1.48 |
| 36,111,789 | 0.49 | | 0.47 |

(i) Original expiry date of December 4, 2011, amended to December 4, 2012, all of which subsequently expired unexercised.

(ii) Original expiry date of December 24, 2011 amended to December 24, 2012, all of which subsequently expired unexercised.

(iii) Provided that at any time the Company's common shares have a closing trading price of $0.75 or higher per share for a period of 20 consecutive trading days on the TSXV, the Company may issue a notice that the warrants must be exercised within the 21 days of the date of the notice or they will expire at the end of the 21 day period. All of the warrants subsequently expired unexercised.

(iv) Provided that at any time the Company's common shares have a closing trading price higher than $1.10 per share for a period of 20 consecutive trading days on the TSXV, the Company may issue a notice that the warrants must be exercised within the 21 days of the date of the notice or they will expire at the end of that 21 day period. These warrants' original expiry date of May 10, 2012, amended to May 10, 2013.

**e) Share Subscriptions**

During the year ended September 30, 2001, the Company proposed to enter into a private placement for the issuance of 2,000,000 units at $0.50 per unit for proceeds of $1,000,000, less a 7.5% finder's fee. Each unit consisted of a common share and a two year share purchase warrant to purchase an additional common share at $0.50 per share in the first year and at $0.60 per share in the second year. The Company received subscriptions for 1,983,171 units (proceeds of $925,000, net of related issue costs).

During the year ended September 30, 2001, the Company entered into an agreement with a purchaser for a private placement of 770,000 units at $0.30 per unit to raise $231,000. Each unit was to be comprised of one common share and one share purchase warrant to purchase one common share at $0.30 per share in the first year and at $0.40 per share in the second year. The Company subsequently amended the terms of that private placement to 1,500,000 units at $0.154 (US$0.10) per unit, with each unit comprised of one common share and one share purchase warrant exercisable for two years to purchase one additional common share for $0.154 (US$0.10). The Company had received subscriptions for 1,500,000 units for proceeds of $231,000.

(Expressed in Canadian Dollars)

## 8. **Share Capital** – (cont'd)

### f) Contributed Surplus:

| | Stock-based Compensation Expense $ | Brokers' Warrants $ | Equity Portion of Convertible Debentures $ | Stock-based Compensation Capitalized on Properties $ | Shares Cancelled $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance - October 1, 2010** | 3,703,712 | 16,447 | 460,000 | 301,178 | - | 4,481,337 |
| Agents' warrants issued | - | 300,182 | - | - | - | 300,182 |
| Stock-based compensation | 646,519 | - | - | - | - | 646,519 |
| Warrants issued for option on property | - | - | - | 35,400 | - | 35,400 |
| Expiry of escrow shares | - | - | - | - | 1,875 | 1,875 |
| **Balance - September 30, 2011** | 4,350,231 | 316,629 | 460,000 | 336,578 | 1,875 | 5,465,313 |
| Warrants issued for option on property | - | - | - | 5,037 | - | 5,037 |
| Stock-based compensation | 521,385 | - | - | - | - | 521,385 |
| **Balance - September 30, 2012** | 4,871,616 | 316,629 | 460,000 | 341,615 | 1,875 | 5,991,735 |

Contributed Surplus is used to recognize the value of stock options granted and share purchase warrants issued prior to exercise, the equity portion of convertible debentures not converted and value of escrow shares cancelled for no additional consideration.

Accumulated Deficit is used to record the Company's change in deficit from earnings or losses from year to year.

Shares subscriptions are used to record shares for which consideration has been received but which are not issued yet.

Cumulative translation adjustment includes foreign exchange losses/gains on translating subsidiaries with a different functional currency than the reporting entity.

(Expressed in Canadian Dollars)

## 9. Segmented Information

### Geographic information

The Company's operations comprise one reportable segment, being the exploration of mineral resource properties. The carrying value of the Company's assets on a country-by-country basis is as follows:

| **September 30, 2012** | Canada $ | Bolivia $ | Colombia $ | Total $ |
|---|---|---|---|---|
| Current assets | 1,574,060 | 54,168 | 85,127 | 1,713,355 |
| Property, plant and equipment | 8,083 | 2,391 | 98,045 | 108,519 |
| Drilling deposit and explorations & evaluation assets | - | 4,629,154 | 5,400,319 | 10,029,473 |
| **Total Assets** | 1,582,143 | 4,685,713 | 5,583,491 | 11,851,347 |

| **September 30, 2011** | Canada $ | Bolivia $ | Colombia $ | Total $ |
|---|---|---|---|---|
| Current assets | 3,328,426 | 176,320 | 53,461 | 3,558,207 |
| Property, plant and equipment | 12,234 | 11,910 | 41,376 | 65,520 |
| Explorations & evaluation assets | - | 12,297,373 | 2,090,333 | 14,387,706 |
| **Total Assets** | 3,340,660 | 12,485,603 | 2,185,170 | 18,011,433 |

| **October 1, 2010** | Canada $ | Bolivia $ | Colombia $ | Total $ |
|---|---|---|---|---|
| Current assets | 359,497 | 553,894 | - | 913,391 |
| Property, plant and equipment | 16,745 | 22,682 | - | 39,427 |
| Explorations & evaluation assets | - | 36,003,501 | 822,762 | 36,826,263 |
| **Total Assets** | 376,242 | 36,580,077 | 822,762 | 37,779,081 |

(Expressed in Canadian Dollars)

## 10. Income Taxes

Taxation in the Company and its subsidiaries' operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction.

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

| | September 30 2012<br>$ | September 30 2011<br>$ |
|---|---|---|
| Loss before income taxes | (7,043,952) | (28,807,480) |
| Tax charge / (recovery) based on statutory rate of 25.38% (2011: 27.00%) | (1,788,000) | (7,778,000) |
| Effect of reduction in statutory rate | 23,000 | 225,000 |
| Non-deductible expenses | 148,000 | (40,000) |
| Different tax rates in other jurisdictions | (12,000) | 355,000 |
| Share issuance costs | - | (114,000) |
| Temporary differences subject to initial recognition exemption | 1,272,000 | 2,381,000 |
| Change in unrecognized deferred tax assets | 357,000 | 4,971,000 |
| Income tax expense /(recovery) | - | - |

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.50% to 15.00%, and the British Columbia provincial tax rate remained the same at 10.00%.

The tax rate of 25.00% represents the federal statutory rate applicable for the 2012 taxation year for Panama, 25.00% for Bolivia, and 33.00% for a branch in Columbia.

### Deferred Tax Assets and Liabilities

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered:

| | September 30 2012<br>$ | September 30 2011<br>$ | October 1 2010<br>$ |
|---|---|---|---|
| Non-capital losses | 3,242,000 | 2,832,000 | 2,462,000 |
| Capital losses | 104,000 | 104,000 | 104,000 |
| Un-deducted financing costs | 109,000 | 166,000 | 116,000 |
| Capital assets | 40,000 | 39,000 | 91,000 |
| Exploration and evaluation assets | 4,748,000 | 4,745,000 | 109,000 |
| Unrecognized deferred tax asset | (8,243,000) | (7,886,000) | (2,882,000) |
| Deferred tax liability | - | - | - |

(Expressed in Canadian Dollars)

**10. Income Taxes** – (cont'd)

As at September 30, 2012, the Company has estimated non-capital losses for Canadian tax purposes of $12,778,000 that may be carried forward to reduce taxable income derived in future years, as summarized below:

Non-capital Canadian tax losses expiring as follows:

| | Year of Expiry | Taxable Losses |
|---|---|---|
| | 2024 | 1,202,000 |
| | 2025 | 1,176,000 |
| | 2026 | 1,342,000 |
| | 2027 | 1,698,000 |
| | 2028 | 1,826,000 |
| | 2029 | 1,118,000 |
| | 2030 | 1,478,000 |
| | 2031 | 1,485,000 |
| | 2032 | 1,453,000 |
| **Total** | | $12,778,000 |

## 11. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders' equity.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold excess cash in interest bearing bank accounts.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended September 30, 2012.

## 12. Financial Risk Management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

**12. Financial Risk Management** – (cont'd)

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. The Company manages credit risk by investing its cash with high credit-worthy financial institutions.

b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future equity placements.

As at September 30, 2012, the Company's financial liabilities were comprised of accounts payable and accrued liabilities.

c) Market Risk

Market risk consists of currency risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

i) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rate between the Canadian and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company is in the development stage and has operations in Bolivia and Colombia and the transactions are denominated in US dollars, Bolivian Boliviano and Colombian Pesos. As such the Company has exposure to foreign currency exchange rate fluctuations. The Company has not entered into any agreements or purchased any instruments to hedge possible foreign currency risks.

The following table reflects the Company's foreign currency exposure as of September 30, 2012:

| | Canadian dollar<br>$ | US dollar<br>$ | Boliviano<br>$ | Colombian peso<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash | 929,635 | 522,590 | 18,130 | 76,498 | 1,546,853 |
| Financial liabilities: | | | | | |
| Accounts payable and accrued liabilities | 105,515 | 116,105 | 83,501 | 32,658 | 337,779 |

As at September 30, 2012, with other variable unchanged, a 10% change in US dollar, Boliviano and Colombian peso to Canadian exchange rate would result in approximately $40,000 (2011 - $10,000) change in the consolidated statements of comprehensive loss.

ii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2012, the Company's cash was subject to or exposed to interest rate risk. As of September 30, 2012, a 1% change in the interest rate would result in a $15,000 (2011 - $34,000) change in the consolidated statements of comprehensive loss.

(Expressed in Canadian Dollars)

## 13. Loss per share

Basis loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

| | September 30 2012 $ | September 30 2011 $ |
|---|---|---|
| Loss attributable to ordinary shareholders | (7,043,952) | (28,807,480) |
| Weighted average number of common shares | 84,604,874 | 66,843,347 |
| Basis and diluted loss per share | (0.08) | (0.43) |

The basis and diluted loss per share are the same as, given the losses incurred, there are no instruments that have a dilutive effect on earnings.

## 14. Non-cash transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statements of cash flows. During the year ended September 30, 2012 and 2011, the following transactions were excluded from the statements of cash flows:

i) Equipment amortization of $19,470 (2011 - $7,817) was included in resource properties.

ii) The Company issued Nil agent warrants (2011 - 1,595,239) valued at $Nil (2011 - $300,182) as a finder's and corporate financing fees.

iii) The Company issued 125,000 common shares (2011 - 569,922) valued at $26,250 (2011 - $200,871) and 125,000 warrants (2011 - 250,000) valued at $5,037 (2011 - $35,400) pursuant to their option to acquired the Venecia and Fredonia resource properties.

## 15. Events after Reporting Date

i) After the year ended September 30, 2012, the Company entered into an agreement with a third party to sell all of the outstanding shares of EEB. The primary asset of EEB is the Company's exploration and evaluation assets located in Bolivia. The sale price is US$5,000,000 with the amount to be received over a 10-year period without interest. The transaction is subject to regulatory approval.

ii) After the year ended September 30, 2012, the Company granted 250,000 options to a director and 200,000 options to a consultant. Each option is exercisable at $0.25 per share with expiry date from November 8, 2014 to November 8, 2017. Options granted to a director vest immediately and the 200,000 options granted to a consultant have 50,000 options vesting every three months commencing February 8, 2013.

iii) After the year ended September 30, 2012, the Company cancelled 800,000 options, 300,000 options with exercise price of $0.35, 400,000 options with exercise price of $0.45 and 100,000 options with exercise price of $1.00 per share.

## 16. First Time Adoption of International Financial Reporting Standards (“IFRS”)

The Company’s consolidated financial statements for the year ended September 30, 2012 are the first annual financial statements prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was October 1, 2010 (the “Transition Date”). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be September 30, 2012. Therefore, the financial statements for the year-ended September 30, 2012, the comparative information presented in these financial statements for the year-ended September 30, 2011, and the opening IFRS statement of financial position at October 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian GAAP.

In preparing the Company’s opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

The guidance for the first time adoption of IFRS is set in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for the first time adopters of IFRS. The Company has elected to take the following optional IFRS 1 exemptions.

**IFRS 3 - Business combinations**

Upon transition to IFRS, a company must adjust its accounting for business combinations carried out prior to transition to comply with IFRS. IFRS 1 provides an exemption which allows companies to carry forward their Canadian GAAP accounting for business combinations prior to transition date. The Company has utilized this exemption.

**IAS 21 - Cumulative translation differences**

The Company has elected to take the IFRS 1 exemption to deem cumulative translation adjustments arising on consolidation of foreign operations to be zero at the date of transition to IFRS.

**IFRS 2- Share based payments**

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments that had not vested by the date of transition to IFRS. The Company has applied this exemption and will only apply IFRS 2 for equity instruments that had not vested by October 1, 2010.

**IAS 32 – Compound Financial Instruments**

The Company has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

**IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities**

The Company has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1 and assessed the required provision at October 1, 2010 under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose.

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

### IAS 23 - Borrowing Costs

The Company has elected to apply the transitional provisions of IAS 23 Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

The Company has applied the following mandatory IFRS 1 exemptions:

### Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

### Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

(Expressed in Canadian Dollars)

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") - (cont'd)

Reconciliation of Assets, Liabilities and Equity as at October 1, 2010:

| | Canadian GAAP $ | IFRS Adjustments $ | Notes | IFRS $ |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | 853,679 | - | | 853,679 |
| Receivables | 32,221 | - | | 32,221 |
| Prepaid & deposits | 27,491 | - | | 27,491 |
| | 913,391 | - | | 913,391 |
| Property, plant and equipment | 39,427 | - | | 39,427 |
| Other deferred property charges | 6,642 | (6,642) | b | - |
| Exploration and evaluation assets | 62,012,705 | (46,512) | b | 36,826,263 |
| | | (17,737,000) | c | |
| | | (7,402,930) | d | |
| | 62,972,165 | (25,193,084) | | 37,779,081 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | 585,674 | - | | 585,674 |
| Future income tax liability | 16,537,000 | (16,537,000) | c | - |
| Decommissioning liabilities | 80,000 | - | | 80,000 |
| Warrants denominated in a foreign currency | - | 966,970 | e | 966,970 |
| | 17,202,674 | (15,570,030) | | 1,632,644 |
| **Shareholders' Deficiency** | | | | |
| Share capital | 71,060,057 | (829,622) | e | 70,230,435 |
| Share subscriptions | 1,156,000 | - | | 1,156,000 |
| Contributed surplus | 4,481,337 | - | | 4,481,337 |
| Cumulative translation adjustment | - | - | d | - |
| Accumulated deficit | (30,927,903) | (53,154) | b | (39,721,335) |
| | | (1,200,000) | c | |
| | | (137,348) | e | |
| | | (7,402,930) | d | |
| | 45,769,491 | (9,623,054) | | 36,146,437 |
| | 62,972,165 | (25,193,084) | | 37,779,081 |

(Expressed in Canadian Dollars)

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

Reconciliation of Assets, Liabilities and Equity as at September 30, 2011:

| | Canadian GAAP $ | IFRS Adjustments $ | Notes | IFRS $ |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | 3,451,530 | - | | 3,451,530 |
| Receivables | 39,564 | - | | 39,564 |
| Prepaid & deposits | 67,113 | - | | 67,113 |
| | 3,558,207 | - | | 3,558,207 |
| Property, plant and equipment | 65,520 | - | | 65,520 |
| Exploration and evaluation assets | 25,752,336 | (184,800) | b | 14,387,706 |
| | | 20,980,798 | c | |
| | | (7,402,930) | d | |
| | | (27,935,204) | c | |
| | | 3,177,506 | d | |
| | 29,376,063 | (11,364,630) | | 18,011,433 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | 296,414 | - | | 296,414 |
| Future income tax liability | 1,764,000 | (1,764,000) | c | - |
| Decommissioning liabilities | 80,000 | - | | 80,000 |
| Warrants denominated in a foreign currency | - | 27,559 | e | 27,559 |
| | 2,140,414 | (1,736,441) | | 403,973 |
| **Shareholders' Deficiency** | | | | |
| Share capital | 77,167,078 | (829,622) | e | 76,337,456 |
| Share subscriptions | 1,156,000 | - | | 1,156,000 |
| Contributed surplus | 5,459,209 | 6,104 | a | 5,465,313 |
| Cumulative translation adjustment | - | (7,402,930) | d | 3,177,506 |
| | | 3,044,120 | d | |
| | | 133,386 | d | |
| | | 7,402,930 | d | |
| Accumulated deficit | (56,546,638) | (6,104) | a | (68,528,815) |
| | | (184,800) | b | |
| | | 22,744,798 | c | |
| | | (27,935,204) | c | |
| | | 802,063 | e | |
| | | (7,402,930) | d | |
| | 27,235,649 | (9,628,189) | | 17,607,460 |
| | 29,376,063 | (11,364,630) | | 18,011,433 |

(Expressed in Canadian Dollars)

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

Reconciliation of Loss and Comprehensive Loss for the Year Ended September 30, 2011:

| | Canadian GAAP $ | IFRS Adjustments $ | Notes | IFRS $ |
|---|---|---|---|---|
| **Expenses:** | | | | |
| Accounting and audit | 61,830 | | | 61,830 |
| Administration | 120,000 | - | | 120,000 |
| Advertising | 6,999 | | | 6,999 |
| Amortization | 4,511 | - | | 4,511 |
| Bank charges | 3,339 | - | | 3,339 |
| Consulting | 119,235 | - | | 119,235 |
| Corporate development | 237,247 | - | | 237,247 |
| Filing fees | 48,859 | - | | 48,859 |
| Foreign exchange loss | 19,560 | - | | 19,560 |
| Insurance | 22,492 | - | | 22,492 |
| Legal | 130,768 | - | | 130,768 |
| Management fees | 177,190 | - | | 177,190 |
| Office and printing | 66,497 | - | | 66,497 |
| Shareholders information | 8,870 | - | | 8,870 |
| Stock-based compensation | 640,415 | 6,104 | a | 646,519 |
| Transfer agent | 13,759 | - | | 13,759 |
| Travel and promotion | 154,057 | - | | 154,057 |
| General explorations | 85,584 | | | 85,584 |
| **Loss from operations** | (1,921,212) | (6,104) | | (1,927,316) |
| **Other items:** | | | | |
| Due diligence on general mineral property | - | (131,646) | b | (131,646) |
| Gain on revaluation of foreign currency denominated warrants | - | 137,348<br>802,063 | e | 939,411 |
| Write-off of exploration and evaluation assets | (38,832,798) | 38,832,798<br>(27,935,204) | c<br>c | (27,935,204) |
| Gain on sale of property, plant and equipment | 217,957 | - | | 217,957 |
| Interest income | 29,318 | - | | 29,318 |
| **Loss before income taxes** | (40,506,735) | 11,699,255 | | (28,807,480) |
| Recovery of future income taxes | 14,888,000 | (14,888,000) | c | - |
| Net loss and comprehensive loss for the year | (25,618,735) | (3,188,745) | | (28,807,480) |
| Loss per common share - basic | (0.38) | | | (0.43) |
| Weighted average number of common shares outstanding - basic | 66,843,347 | | | 66,843,347 |

(Expressed in Canadian Dollars)

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

Reconciliation of Cash Flows For The Year Ended September 30, 2011:

| | Canadian GAAP $ | IFRS Adjustments $ | Notes | IFRS $ |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Net loss for the year** | (25,618,735) | (3,188,745) | | (28,807,480) |
| **Adjustments to reconcile loss to net cash used in operating activities:** | | | | |
| Amortization | 4,511 | - | | 4,511 |
| Gain on property, plant and equipment | (217,957) | - | | (217,957) |
| Gain on revaluation of foreign currency denominated warrants | - | (939,411) | e | (939,411) |
| Interest income | - | (29,318) | f | (29,318) |
| Recovery of future income taxes | (14,888,000) | 14,888,000 | c | - |
| Common shares issued for corporate finance fees | 30,000 | - | | 30,000 |
| Stock-based compensation | 640,415 | 6,104 | a | 646,519 |
| Write-off of exploration and evaluation assets | 38,832,798 | (38,832,798) | c | 27,935,204 |
| | | 27,935,204 | e | |
| | (1,216,968) | (160,964) | | (1,377,932) |
| **Changes in non-cash working capital items:** | | | | |
| Amounts receivable | (7,343) | - | | (7,343) |
| Prepaid and deposits | (39,622) | - | | (39,622) |
| Accounts payable and accrued liabilities | (89,259) | - | | (89,259) |
| **Cash from (used) in operating activities** | (1,353,192) | - | | (1,514,156) |
| **Investing activities** | | | | |
| Interest income | - | 29,318 | f | 29,318 |
| Property, plant and equipment expenditures | (44,088) | - | | (44,088) |
| Proceeds on sale of property plant and equipment | 223,623 | - | | 223,623 |
| Exploration and evaluation assets | (2,206,699) | 131,646 | b | (2,075,053) |
| **Cash used in investing activities** | (2,027,164) | 160,964 | | (1,866,200) |
| **Financing activities** | | | | |
| Proceeds from common share issuance | 6,432,778 | - | | 6,432,778 |
| Costs of issue of shares | (454,571) | - | | (454,571) |
| **Cash from financing activities** | 5,978,207 | - | | 5,978,207 |
| **Change in cash and cash equivalents in the year** | 2,597,851 | - | | 2,597,851 |
| **Cash and cash equivalents, beginning of year** | 853,679 | - | | 853,679 |
| **Cash and cash equivalents, end of year** | 3,451,530 | - | | 3,451,530 |

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

Notes to Reconciliations:

**a) Share-based Payments**

IFRS 2 is effective for the Company as at October 1, 2010 and is applicable to:

- **i)** New grants of stock-based payments subsequent to October 1, 2010;
- **ii)** Equity-settled stock-based compensation awards granted subsequent to November 7, 2002 and that vest after October 1, 2010; and
- **iii)** Awards that are modified on or after October 1, 2010, even if the original grant of the award was not accounted for in accordance with IFRS 2.

Pre-changeover Canadian GAAP allows the Company to calculate the fair value of the stock-based compensation on awards granted with graded vesting as a single award and recognize the expense from the date of grant over the vesting period on a straight-line basis. IFRS 2 requires each tranche in an award with graded vesting features to be treated as a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company determines the fair value of stock options granted using the Black-Scholes option pricing model.

As there were no unvested stock options at the transition date, there was no effect on equity at October 1, 2010. However share-based payment awards granted in the year ended September 30, 2011 have been amended, with a resulting increase in the expense and contributed surplus of $6,104 for that year.

**b) IFRS 6 - Exploration for and evaluation of mineral resources**

Capitalization of pre-acquisition expenditures

IFRS 6 is effective for the Company as of October 1, 2010 and is applicable to the accounting for exploration and evaluation of mineral resources. In terms of IFRS 6 and the company's accounting policy, once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. Pre-exploration costs are expensed in the year in which they are incurred.

As of October 1, 2010, the Company has expensed $53,154 (September 30, 2011, $184,800) of pre-exploration costs incurred prior to obtaining the acquisition rights, of which $6,642 (September 30, 2011, $nil) was recorded as other deferred property charges while the remaining $46,512 (September 30, 2011, $184,800) was recorded as exploration and evaluation assets. These expenditures had previously been capitalized under Canadian GAAP.

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

### c) Reversal of deferred tax liability

The Company capitalized certain mineral property exploration costs incurred by the parent company on behalf of its foreign entities. Under Canadian GAAP, a future income tax liability was recognized and measured in accordance with CICA section 3465 Income Taxes, with a corresponding increase to the carrying value of mineral property assets. Under IAS 12 Income Taxes, this deferred tax liability and the related gross-up in the carrying value of exploration and evaluation assets would not be recognized, and at October 1, 2010 $16,537,000 ( September 30, 2011 $1,764,000) of deferred tax liability has been reversed.

Furthermore, $1,200,000 recovery of future income tax liability during the year ended September 30, 2010 (September 30, 2011 $1,200,000) has been reversed against deficit.

As a result of the reversal of deferred tax liability and its impact on write-offs, the mineral property assets were adjusted at October 1, 2010 by $17,737,000 (September 30, 2011 $20,980,798) to back out a write-off of deferred taxes already adjusted for. The write-off of mineral properties was accordingly adjusted to back out the initial amount set up of $Nil (September 30, 2011 $38,832,798) and set up the actual amount of $Nil (September 30, 2011, $27,935,204).

In addition, as a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see (a) and (b) above). There has not been a corresponding change to the tax basis of these assets and liabilities. This will not impact the deferred taxes recognized. However, this will impact the disclosure of individual temporary differences.

### d) Foreign currency translation - Functional currency

The cumulative translation adjustment records foreign exchange gains or losses on translating subsidiaries with a different functional currency than the reporting entity. As the functional currency of the subsidiary in Bolivia is different than the Company, the assets and liabilities of the subsidiary in Bolivia are translated into Canadian dollars using the exchange rate for the period. This resulted in different amounts for non-monetary assets compared to those under pre-changeover Canadian GAAP. This has resulted in a reduction in exploration and evaluation assets as at October 1, 2010 of $7,402,930 (September 30, 2011, $3,177,506) of which $7,402,930 was charged to deficit at transition to IFRS, while the difference was offset to cumulative translation adjustment (September 30, 2011, $3,177,506).

### e) Warrants – Denominated in a foreign currency

Under Canadian GAAP, both Canadian and US dollar denominated warrants were accounted for as equity instruments. IFRS requires that warrants denominated in a currency other than the functional currency of the issuer be classified as liabilities and fair valued each period unless they are part of a pro rata issue to all existing shareholders, in which case they would be classified as equity. As a result of the adoption of IFRS, the Company's US dollar denominated warrants were therefore classified as warrant liabilities rather than equity and revalued to their fair value at each period end. Subsequent changes in the fair value of the warrants are recorded in net income. The effect of this adjustment is a reduction of $829,622 in share capital at October 1, 2010 (September 30, 2011, $829,622), an increase in warrant liability of $966,970 at October 1, 2010 (September 30, 2011 $27,559) and a corresponding increase of $137,348 in deficit at October 1, 2010 (September 30, 2011, $802,062 decrease).

## 16. First Time Adoption of International Financial Reporting Standards ("IFRS") – (cont'd)

### f) Interest income

Under Canadian GAAP, interest income was classified as operating activities. Under IFRS, interest income has been reclassified as investing activities on the consolidated statements of cash flows.