RED EAGLE MINING CORPORATION

Consolidated Financial Statements

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Red Eagle Mining Corporation

We have audited the accompanying consolidated financial statements of **Red Eagle Mining Corporation**, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Red Eagle Mining Corporation** as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
April 5, 2013.

Chartered Accountants

RED EAGLE MINING CORPORATION
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at		**December 31, 2012**		December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents (note 15)	**$**	**15,893,971**	$	5,161,767
Other financial assets (note 15)		**-**		4,400,000
Amounts receivable (note 10)		**122,720**		130,054
Prepaid expenses		**542,514**		376,850
		16,559,205		10,068,671
Non-current assets				
Equipment (note 6)	**$**	**497,503**	$	545,386
Mineral properties (note 7)		**3,328,756**		3,441,594
		3,826,259		3,986,980
TOTAL ASSETS	**$**	**20,385,464**	$	14,055,651
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities (note 10)	**$**	**836,897**	$	930,037
Mineral property obligations (note 7)		**6,198,750**		-
TOTAL LIABILITIES		**7,035,647**		930,037
SHAREHOLDERS' EQUITY				
Share capital (note 8)	**$**	**32,643,403**	$	20,829,110
Warrants (note 8)		**1,909,316**		1,909,316
Share option reserve (note 8)		**2,754,623**		2,117,043
Foreign exchange reserve		**(23,817)**		5,080
Deficit		**(22,503,785)**		(10,871,529)
		14,779,740		13,989,020
Non-controlling interests		**(1,429,923)**		(863,406)
TOTAL EQUITY		**13,349,817**		13,125,614
TOTAL LIABILITIES AND EQUITY	**$**	**20,385,464**	$	14,055,651

Commitments (notes 7 and 12)
Segmented information (note 11)

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

RED EAGLE MINING CORPORATION
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

		For the year ended December 31, 2012		For the year ended December 31, 2011
EXPENSES				
Mineral property exploration costs (note 7)	$	**9,842,248**	$	**6,647,112**
Salaries and benefits		**815,725**		**1,213,917**
Office and administration		**920,654**		**1,257,969**
Investor relations and promotion		**502,694**		**331,066**
Professional fees		**114,612**		**413,440**
Filing fees		**56,290**		**107,876**
Travel		**21,878**		**79,680**
Evaluation of projects		**7,935**		**24,667**
Impairment of assets (note 7)		**-**		**73,141**
	$	**12,282,036**	$	**10,148,868**
OTHER EXPENSES (INCOME)				
Foreign exchange (gain) loss		**(9,795)**		**111**
Interest and miscellaneous income		**(74,217)**		**(67,264)**
NET LOSS FOR THE YEAR	$	**12,198,024**	$	**10,081,715**
OTHER COMPREHENSIVE (INCOME) LOSS				
Foreign currency translation differences for foreign operations		**29,646**		**(16,676)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$	**12,227,670**	$	**10,065,039**
Net loss attributable to:				
Equity holders of the parent	$	**11,632,256**	$	**9,441,202**
Non-controlling interests		**565,768**		**640,513**
	$	**12,198,024**	$	**10,081,715**
Total comprehensive loss attributable to:				
Equity holders of the parent	$	**11,661,153**	$	**9,425,101**
Non-controlling interests		**566,517**		**639,938**
	$	**12,227,670**	$	**10,065,039**
Basic and diluted loss per share attributable to ordinary equity holders of the parent	$	**0.29**	$	0.31
Weighted average number of common shares outstanding		**40,296,930**		30,406,400

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

RED EAGLE MINING CORPORATION
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Note	Number of shares issued	Share capital	Warrants	Share option reserve	Foreign exchange reserve	Deficit	Attributable to equity holders of the parent	Non-controlling interests	Total
Balance, January 1, 2011		**22,712,093**	**$ 7,967,847**	**$ 122,153**	**$ -**	**$ (11,021)**	**$ (1,430,327)**	**$ 6,648,652**	**$ (223,468)**	**$ 6,425,184**
Private placements	8	1,666,666	1,000,000	250,000	-	-	-	**1,250,000**	**-**	**1,250,000**
Shares issued for mineral properties	8	170,000	165,400	-	-	-	-	**165,400**	**-**	**165,400**
Units issued on initial purchase offering	8	11,497,100	12,934,237	1,437,138	-	-	-	**14,371,375**	**-**	**14,371,375**
Share issue costs	8	50,000	(1,238,374)	100,025	-	-	-	**(1,138,349)**	**-**	**(1,138,349)**
Share option based payments	8	-	-	-	2,117,043	-	-	**2,117,043**	**-**	**2,117,043**
Total comprehensive loss for the year		-	-	-	-	16,101	(9,441,202)	**(9,425,101)**	**(639,938)**	**(10,065,039)**
Balance as at December 31, 2012		**36,095,859**	**$ 20,829,110**	**$ 1,909,316**	**$ 2,117,043**	**$ 5,080**	**$ (10,871,529)**	**$ 13,989,020**	**$ (863,406)**	**$ 13,125,614**

		Number of shares issued	Share capital	Warrants	Share option reserve	Foreign exchange reserve	Deficit	Attributable to equity holders of the parent	Non-controlling interests	Total
Balance, January 1, 2012		**36,095,859**	**$ 20,829,110**	**$ 1,909,316**	**$ 2,117,043**	**$ 5,080**	**$ (10,871,529)**	**$ 13,989,020**	**$ (863,406)**	**$ 13,125,614**
Issuance of shares as part of a private placement	8	21,436,959	11,790,327	-	-	-	-	**11,790,327**	**-**	**11,790,327**
Share issue costs	8		(504,084)	-	-	-	-	**(504,084)**	**-**	**(504,084)**
Shares issued for mineral properties	8	1,035,000	528,050	-	-	-	-	**528,050**	**-**	**528,050**
Share option based payments	8	-	-	-	637,580	-	-	**637,580**	**-**	**637,580**
Total comprehensive loss for the year		-	-	-	-	(28,897)	(11,632,256)	**(11,661,153)**	**(566,517)**	**(12,227,670)**
Balance as at December 31, 2012		**58,567,818**	**$ 32,643,403**	**$ 1,909,316**	**$ 2,754,623**	**$ (23,817)**	**$ (22,503,785)**	**$ 14,779,740**	**$ (1,429,923)**	**$ 13,349,817**

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

RED EAGLE MINING CORPORATION
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

		For the year ended December 31, 2012		For the year ended December 31, 2011
Cash flows provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(12,198,024)**	$	(10,081,715)
Adjustments for items not affecting cash:				
Depreciation		**186,254**		124,357
Share option based payments		**637,580**		2,117,043
Impairment of assets		**-**		73,141
	$	**(11,374,190)**	$	(7,767,174)
Net changes in non-cash working capital items:				
Amounts receivable		**8,186**		(93,843)
Prepaid expenses		**(192,477)**		(365,230)
Accounts payable and accrued liabilities		**(147,283)**		786,045
Net cash flows used in operating activities	**$**	**(11,705,764)**	$	(7,440,202)
FINANCING ACTIVITIES				
Issuance of common shares and warrants for cash, net share issue costs		**11,302,602**		14,483,025
Proceeds from sale of royalty		**8,333,333**		-
Net cash flows provided by financing activities	**$**	**19,635,935**	$	14,483,025
INVESTING ACTIVITIES				
Acquisition of mineral properties		**(1,444,494)**		(2,864,374)
Purchase of short-term investments		**-**		-
Proceeds on redemption of short-term investments, net of interest earned		**4,400,000**		-
Purchase of equipment		**(104,749)**		(568,693)
Net cash flows provided by (used in) investing activities	**$**	**2,850,757**	$	(3,433,067)
Net foreign exchange differences		**(48,724)**		14,428
Net increase in cash and cash equivalents		**10,732,204**		3,624,184
Cash and cash equivalents, beginning of year		**5,161,767**		1,537,583
Cash and cash equivalents, end of year	**$**	**15,893,971**	$	5,161,767
Cash and cash equivalents consist of :				
Cash	**$**	**321,817**	$	561,767
Short term deposits (net of any deposits as classified as "Other financial assets")		**15,572,154**		4,600,000
	$	**15,893,971**	$	5,161,767

Supplemental cash flow information (note 14)

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

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

The consolidated financial statements of Red Eagle Mining Corporation and all of its subsidiaries (the "Company") for the year ended December 31, 2012 were authorised for issue in accordance with a resolution of the board of directors on April 5, 2013.

Red Eagle Mining Corporation was incorporated under the *Business Corporations Act* in British Columbia on January 4, 2010.

The address and domicile of the Company's registered office and its principal place of business is Suite 920 - 1030 West Georgia Street, Vancouver, British Columbia, Canada, V6E 2Y3.

The Company is engaged in the identification, acquisition, exploration and development of mineral resources in Colombia. The Company is considered to be in the exploration stage as it has not placed any of its mineral properties into production.

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

The Company has entered into mineral property acquisition agreements that will require future outlays of cash in order to maintain the properties in good standing or in order to fulfill contractual obligations. The Company's continuing operations are dependent upon management's ability to raise required funding through the issuance of equity or debt, asset sales or a combination thereof.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. Certain minor comparative balances have been reclassified to conform with the current presentation.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company as at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-Company balances, transactions, unrealised gains and losses resulting from intra-Company transactions and dividends are eliminated in full.

Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

These consolidated financial statements comprise the accounts of the Company and the following subsidiaries of the Company:

- Red Eagle Mining de Colombia Ltd., a company incorporated in Canada (100% ownership);
- Rovira Mining Ltd., a company incorporated in Canada (70% ownership); and
- Miranda Gold Colombia IV Ltd., a company incorporated in Canada (70% ownership).

Each of these subsidiaries has a branch located in Colombia.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below.

a) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and its subsidiaries is the Canadian dollar. The functional currency of the subsidiaries' branches is the Colombian peso. The consolidated financial statements are presented in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net loss.

Statements of comprehensive loss and cash flows for entities whose functional currency is different to the presentation currency are translated into the Company's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation are taken to the foreign exchange reserve within equity and recorded as a component of other comprehensive income (loss). On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in net loss as part of the gain or loss on sale.

b) Equipment

Items of equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognized within provisions. All items of equipment are subsequently carried at depreciated cost less impairment losses, if any.

Depreciation is provided on all items of equipment to write off the carrying value of items over their expected useful economic lives. It is applied using the declining balance method at the following rates:

- Computer Hardware – 30% per annum
- Software – 100% per annum
- Field Equipment – 30% per annum
- Office Equipment – 20% per annum
- Vehicles – 30% per annum

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

c) Operating leases

Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

d) Mineral properties

All direct costs including the option payments related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into "mineral properties". On the commencement of commercial production, depletion of each mining property will be provided on a unit-of production basis using estimated reserves as the depletion base.

Costs incurred prior to the acquisition of a mineral property are charged to the statement of comprehensive loss as incurred under the heading evaluation of projects. The Company records any gain on the sale of a net smelter royalty over mineral properties as a reduction in the carrying amount of the mineral property, with any residual gain (over and above the mineral property carrying value) recorded in the statement of comprehensive loss.

e) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment of inventories, are recognised in comprehensive loss in those expense categories consistent with the function of the impaired asset.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a term to maturity of three months or less from the date of acquisition.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

g) Financial instruments

Financial assets

Initial recognition and measurement

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or fair value through profit or loss ("FVTPL"). All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments or fixed maturities that the Company has the positive intention and ability to hold them to maturity.
- Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially recognized at fair value, plus, in the case of loans and borrowings, directly attributable transaction costs.

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in comprehensive loss in the period in which they arise. The net gain or loss recognized in comprehensive loss excludes any interest paid on the financial liabilities.

Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in comprehensive loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in comprehensive loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Available for sale

If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in comprehensive loss, is transferred from equity to comprehensive loss. In the case of equity investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Reversals in respect of equity instruments classified as available-for-sale are not recognized in comprehensive loss.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive loss.

h) Taxation

Tax expense recognized in comprehensive loss comprises the sum of deferred tax and current tax not recognized directly in equity.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization or settlement, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, or
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

h) Taxation (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right to set off current tax assets and liabilities and the deferred income taxes related to the same taxable entity and the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in comprehensive loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

i) Share-based payments

The Company grants share purchase options to employees, directors and consultants and accounts for them using the fair value method in accordance with IFRS 2. Under this method, the compensation cost of options is estimated at fair value at the grant date and charged to earnings over the vesting period, with the offsetting credit recorded as an increase recorded in equity. If the share options are exercised, the proceeds are credited to share capital and the fair value at the date of grant is reclassified from the share option reserve to share capital. When options granted have graded vesting, each tranche is separately valued and amortized over its vesting period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

j) Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year. The Company uses the treasury share method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year or period.

k) Reclamation provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits and a reliable estimate can be made of the amount of the obligation. The Company records a reclamation provision for the legal and constructive obligations to restore mining and other operations in the period in which the obligation is incurred. When the liability is initially recognized the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assist to the extent it was incurred in the development and construction of a mine. Any reclamation provision that arises through the production of inventory is expensed when the inventory item is included in cost of goods sold. The provision is reviewed at each reporting date and all changes to the liability, including changes in discount rate, are recorded as a change to the mining asset to which it relates. Over time the discount is unwound through finance costs in the statement of comprehensive loss. Any remediation that takes place in the same period as the obligation being incurred is recorded directly in statement of comprehensive loss as it is incurred. As at December 31, 2012 the Company has not recorded a reclamation provision and all reclamation work to date has been minor and performed in the same period as the obligation was incurred.

l) Management judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Information about significant judgments, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Fair value of share based awards

Management uses valuation techniques in measuring the fair value of share options granted. The fair value is determined using the Black Scholes option pricing model and is subject to a number of variables. These are disclosed in note 8. Changes to these assumptions could have a material impact on the Company's financial statements.

Reclamation provision

Management uses various assumptions in the calculation of the reclamation provision including the magnitude and timing of costs to be incurred, inflation rates, technological changes, regulatory changes and discount rates. These uncertainties may result in actual future expenditures materially differing from amounts currently provided. As noted in the principal accounting policies, the company does not have a reclamation provision.

4. RECENTLY ADOPTED ACCOUNTING STANDARDS

The following amendment to an accounting standard was adopted effective January 1, 2012.

IFRS 7 - Disclosures - Transfers of financial assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment was adopted effective January 1, 2012 with no comparative requirements and had no impact on the financial statements for the year ended December 31, 2012.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following accounting standards, interpretations and amendments to existing standards have been issued but are not yet effective:

IFRS 9 Financial instruments - classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss. . The effective date for the amendment is January 1, 2015 and is applied retrospectively. Early application is permitted. The Company has not yet determined the impact of this amendment on its consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 10 Consolidated Financial Statements

The standard replaces IAS 27, consolidated and separate financials statements, and requires all controlled entities to be consolidated based on a single control model, where by control is defined as the exposure to, or having rights to, returns from its involvement with its investee, and the ability to affect those returns through its power over the investee. The standard has an effective date of January 1, 2013 with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor in classifying the arrangement as a joint operation or a joint venture. The option to account for joint ventures using proportionate consolidation has been removed, and instead equity accounting will be a requirement. The standard has an effective date of January 1, 2013, with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

IFRS 12 Disclosure Of Interests In Other Entities

IFRS 12 provides certain disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. The key features are the requirement to disclose judgements and assumptions made when deciding how to classify involvement with another entity, interest that non-controlling entities have in consolidated entities and the nature of the risks associated with interests in other entities. The standard has an effective date of January 1, 2013 with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

IFRS 13 Fair Value Measurements

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is permitted by IFRS. The standard will not affect when fair value is used, it just describes how to measure fair value. The standard provides a single framework for measuring fair value, while requiring enhanced disclosures when fair value is applied, establishes the definition of fair value as the “exit price”, and the clarifies that the concepts of highest and best use and valuation premise are relevant only for non-financial assets and liabilities. The standard has an effective date of January 1, 2013 with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

IAS 27 Separate Financial Statements

Since IFRS 10 will address the accounting for consolidated financial statements, IAS 27 has been reissued to address accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard has an effective date of January 1, 2013 with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

IAS 28 Investments In Associates And Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting and disclosure guidance for investments in associates and joint ventures. The standard has an effective date of January 1, 2013 with early adoption permitted. The Company is currently evaluating this standard and it is not expected to have a significant impact on its consolidated financial statements.

6. EQUIPMENT

		Computer hardware		Field equipment		Office equipment		Software		Vehicles		Total
Cost												
As at January 1, 2011	$	2,040	$	13,618	$	22,389	$	8,029	$	82,741	$	128,817
Additions		50,394		156,690		32,461		52,245		276,903		568,693
Effect of movement in exchange rates		(1,200)		(3,604)		(129)		(806)		(4,025)		(9,764)
As at December 31, 2011	$	51,234	$	166,704	$	54,721	$	59,468	$	355,619	$	687,746
Additions		27,202		5,433		64,535		7,579		-		104,749
Effect of movement in exchange rates		3,487		9,916		4,330		2,509		10,075		30,317
Balance as at December 31, 2012		**81,923**		**182,053**		**123,586**		**69,556**		**365,694**		**822,812**
Depreciation												
As at January 1, 2011	$	(305)	$	(2,043)	$	(2,239)	$	(4,016)	$	(12,706)	$	(21,309)
Depreciation charged for the period		(7,946)		(19,409)		(7,486)		(25,696)		(63,820)		(124,357)
Effect of movement in exchange rates		176		361		108		320		2,341		3,306
As at December 31, 2011	$	(8,075)	$	(21,091)	$	(9,617)	$	(29,392)	$	(74,185)	$	(142,360)
Depreciation charged for the period		(16,846)		(32,309)		(13,727)		(31,432)		(91,940)		(186,254)
Effect of movement in exchange rates		(689)		(1,384)		381		(255)		5,252		3,305
Balance as at December 31, 2012		**(25,610)**		**(54,784)**		**(22,963)**		**(61,079)**		**(160,873)**		**(325,309)**
Net book value												
As at December 31, 2011	$	43,159	$	145,613	$	45,104	$	30,076	$	281,434	$	545,386
As at December 31, 2012	**$**	**56,313**	**$**	**127,269**	**$**	**100,623**	**$**	**8,477**	**$**	**204,821**	**$**	**497,503**

7. MINERAL PROPERTIES

Following is a continuity of the acquisition costs of the mineral properties:

		Santa Rosa		Pavo Real		Cajamarca		Total
Balance as at January 1, 2011	**$**	**306,386**	**$**	**177,331**	**$**	**-**	**$**	**483,717**
Acquistion costs		2,745,270		158,633		125,871		3,029,774
Impairment charge		-				(73,141)		(73,141)
Effect of movement in exchange rates				762		482		1,244
Balance as at December 31, 2011	**$**	**3,051,656**	**$**	**336,726**	**$**	**53,212**	**$**	**3,441,594**
Acquistion costs		8,052,112		111,957		43,433		8,207,502
Sale of 2% NSR royalty		(8,333,333)		-		-		(8,333,333)
Effect of movement in exchange rates		1,293		9,268		2,432		12,993
Balance as at December 31, 2012	**$**	**2,771,728**	**$**	**457,951**	**$**	**99,077**	**$**	**3,328,756**

7. MINERAL PROPERTIES (continued)

Following is a summary of the mineral property exploration costs which were expensed when incurred for the years ended December 31, 2012 and 2011:

For the year ended December 31, 2012

	Santa Rosa	Pavo Real	Cajamarca	Total
Mineral property exploration costs:				
Assays and sampling	$ 672,471	$ 93,010	$ -	**$ 765,481**
Concession fees	15,658	7,918	29,721	**53,297**
Depreciation	142,740	43,513	-	**186,253**
Drilling	3,668,317	550,961	-	**4,219,278**
Field and camp expenses	1,005,846	177,498	-	**1,183,345**
Legal, office and administration	343,101	166,514	50,121	**559,736**
Geological and geochemical	91,379	14,952	-	**106,331**
Metallurgical testwork	15,090	-	-	**15,090**
Salaries and consulting fees	1,603,260	674,131	-	**2,277,391**
Technical studies	94,011	-	-	**94,011**
Travel and transportation	287,273	94,762	-	**382,035**
Total exploration costs for the year ended December 31, 2012	**$ 7,939,146**	**$ 1,823,259**	**$ 79,842**	**$ 9,842,248**

For the year ended December 31, 2011

	Santa Rosa	Pavo Real	Cajamarca	Total
Mineral property exploration costs:				
Assays and sampling	$ 189,226	$ 99,868	$ 1,938	**$ 291,032**
Concession fees	12,004	19,249	93,677	**124,930**
Depreciation	96,189	28,168	-	**124,357**
Drilling	1,461,653	200,448	-	**1,662,101**
Field and camp expenses	936,239	269,270	4,872	**1,210,381**
Legal, office and administration	173,768	231,777	36,247	**441,792**
Geological and Geochemical	148,171	44,803	13,054	**206,028**
Geophysics	87,779	28,916	-	**116,695**
Salaries and consulting fees	1,246,014	902,294	33,838	**2,182,146**
Travel and transportation	201,985	83,401	2,264	**287,650**
Total exploration costs for the year ended December 31, 2011	**$ 4,553,028**	**$ 1,908,194**	**$ 185,890**	**$ 6,647,112**

Cumulative expenditures as at January 1, 2011	$ 377,060	$ 659,728	$ -	$ 1,036,788
Cumulative exploration costs as at December 31, 2012	**$ 12,869,234**	**$ 4,391,181**	**$ 265,732**	**$ 17,526,148**

7. MINERAL PROPERTIES (continued)

Santa Rosa

On April 15, 2011 the Company signed the final purchase and sale agreement by which the Company can acquire 100% of the Santa Rosa Project, which is comprised of various concession contracts in Colombia through payment of US $8,380,000 cash and a final payment ("Final Payment") equal to the greater of US$2,000,000 and US$15 per gold equivalent ounce multiplied by the quantity of Measured and Indicated gold equivalent ounces (as defined in National Instrument Policy 43-101 and as calculated by an independent qualified person) on a predefined 20 hectare area of the project. On July 18, 2012 the Company signed an amendment to the final purchase and sale agreement whereby the Final Payment was set at US $2,000,000 payable in two installments of US $1,000,000 each on or before December 15, 2012 (paid) and November 30, 2013, and the contingent element was removed.

The following table sets out the payments, including the amended Final Payment (all US dollars):

Cash payments:		
Paid	$	4,140,000
Due upon title transfer of concession contracts LDM-08061 and LKA-08004		740,000
Due on or before November 30, 2013		5,500,000
	$	**10,380,000**

Sale of Royalty

On October 22, 2012, concurrent with a private placement financing, the Company completed the sale of a 2% NSR royalty over the Santa Rosa property to Liberty Metals and Mining Holdings LLC for gross proceeds of $8,333,333. This transaction was recorded as a credit to the mineral property. The Company has the option to sell an additional 1% NSR for $4,666,667 at any time until December 31, 2013 or repurchase 1% NSR for $8,333,333 at any time until two years after the first gold production. The 2% royalty covers the Santa Rosa property as described above, including concession contracts LDM-08061 and LKA-08004. Under the terms of the royalty sale agreement the Company is obliged to make the remaining payments for the property and the optionality has been removed. This obligation results in the remaining payments being considered a liability and has been recorded under the caption mineral property obligation in current liabilities and as an acquisition cost to the property. The liability has not been discounted on account of the short timeframe until discharge of the obligation.

Acquisition of additional Santa Rosa property

On October 24, 2012 the Company executed an agreement with Bullet Holdings Corp. to acquire certain mineral property exploration rights totaling 35,910 hectares adjacent to the Company's Santa Rosa project. The consideration for the transaction was the issuance of 905,000 common shares valued at $461,550, reimbursement of current year concession fees of $324,872 and the granting of a 1.5% NSR Royalty over the properties acquired. The 2% NSR sold to Liberty does not cover these new properties. The Company incurred transaction costs of $31,676 for a total acquisition cost of $818,098. The new properties extend the Company's Santa Rosa project and are considered part of the Santa Rosa project for mineral property and segmented reporting purposes.

-

7. MINERAL PROPERTIES (continued)

Pavo Real

On June 25, 2010 the Company entered into a share purchase agreement ("SPA") and shareholder agreement ("SA") with Miranda Gold Corp. ("Miranda"). Pursuant to the SPA, Miranda assigned 70% of the shares of Miranda Gold Colombia III Ltd., a wholly-owned subsidiary of Miranda, to the Company. On January 5, 2011 Miranda Gold Colombia III Ltd. changed its name to Rovira Mining Limited ("Rovira"). The activities of Rovira will be governed by the SA. To maintain its 70% shareholding in Rovira, effectively representing a 70% interest in the Pavo Option and the Pavo Real mining interest, the Company must make an aggregate US$4,000,000 contribution ("First Contribution") to Rovira within the next four years as follows:

Exploration expenditures:	
On or before June 25, 2011 (contributed)	$ 500,000
On or before June 25, 2012 (contributed)	750,000
On or before June 25, 2013 (contributed)	1,000,000
On or before June 25, 2014	1,750,000
	$ 4,000,000

These funds will be used to fund exploration work at the Pavo Real project. If the Company fails to make any of the capital contributions within the stated time periods, Red Eagle will forfeit its shares of Rovira to Miranda.

After making the First contribution, the Company shall make further contributions to Rovira as follows ("Second Contribution"):

a) A contribution of at least $1,000,000 per year in the event that Rovira elects to undertake a feasibility program to prepare a positive feasibility study in a form acceptable for the purpose of financing mine construction, which annual minimum contribution shall be made by the Company until the completion of such feasibility study, which feasibility study must be completed within eight years from June 25, 2010; or
b) If Rovira does not undertake a feasibility program, or if Rovira commences a feasibility program but does not complete a feasibility study, the Company shall contribute a minimum of $10,000,000 in excess of the First Contribution at a rate of not less than $1,000,000 per year, all of which shall be expended on exploration operations, development operations, concession fees and payments made to acquire and maintain applications, concessions and land (excluding payments in the Company's shares issued pursuant to the Pavo Real Option Agreement) and must be expended within 10 years from June 30, 2010. Expenditures made by the Company on an uncompleted feasibility study may be applied to these additional expenditure requirements.

After making the Second Contribution, if the board of directors of Rovira has approved a feasibility study and a mine construction program, the Company will have the option, but not the obligation, to elect to acquire an additional 10% interest in Rovira by committing to sole fund all costs associated with achieving the commencement of commercial production. The Company may exercise this option (the "Additional 10% Option") by providing notice in writing to Rovira and MAD I within 30 days of the date of such board of directors of Rovira approval. If the Company exercises the Additional 10% Option, Rovira will issue additional shares from treasury without payment to increase the Company's ownership percentage to 80%.

In addition, Rovira will pay the Company a fee of 10% of the costs incurred by Rovira in carrying out approved exploration programs and implementing a production decision.

7. MINERAL PROPERTIES (continued)

On June 24, 2010 Miranda entered into an option agreement with Expogold to acquire the Pavo real, project (the “Pavo Real Option”). The commitments under the Pavo Real Option are the responsibility of the Company pursuant to the Pavo Real SA. Cash payments are made directly by Rovira, and for every share issued by Miranda to Expogold, the Company will issue one common share to Miranda. The schedules of shares to be issued and US dollar cash payments to be made are as follows:

Cash payments:		
On or before June 24, 2010 (paid)	$	20,000
On or before December 24, 2010 (paid)		20,000
On or before June 24, 2011 (paid)		50,000
On or before June 24, 2012 (paid)		60,000
On or before June 24, 2013		70,000
On or before June 24, 2014		80,000
On or before June 24, 2015		100,000
	$	**400,000**

Common shares to be issued:	**Number of common shares**
On or before June 24, 2010 (issued)	100,000
On or before December 24, 2010 (issued)	100,000
On or before June 24, 2011 (issued)	100,000
On or before June 24, 2012 (issued)	100,000
On or before June 24, 2013	100,000
On or before June 24, 2014	100,000
On or before June 24, 2015	100,000
	700,000

In addition, commencing on June 25, 2016, and payable on each succeeding anniversary, Rovira must pay US$100,000 and deliver 100,000 common shares of Miranda to Expogold until the date on which there is a defined measured and indicated mineral resource within a defined area of interest on the Pavo Real property of greater than 250,000 total ounces of gold or gold equivalent, which complies with an independent NI 43-101 compliant technical report (the "Pavo Real Defined Resource"). Once there is a Pavo Real Defined Resource, Rovira will be required to make one of the following additional payments to Expogold:

a) If the Pavo Real Defined Resource is greater than 250,000 ounces, but less than 500,000 ounces, Rovira shall pay US$100,000; or
b) If the Pavo Real Defined Resource is equal to or greater than 500,000 ounces, Rovira shall pay US$250,000.

In addition, Rovira shall pay to Expogold:

a) US$250,000 upon completion of a feasibility study;
b) US$500,000 upon achieving commercial production;
c) US$500,000 upon producing 250,000 ounces of gold or gold equivalent ounces;
d) US$750,000 upon producing 500,000 ounces of gold or gold equivalent ounces; and
e) US$1,000,000 upon producing 1 million ounces of gold or gold equivalent ounces.

Each of the above payments may be in cash or common shares of Miranda. Thereafter, Rovira shall pay US$1 million for each 1 million ounces of gold or gold equivalent ounces produced.

7. MINERAL PROPERTIES (continued)

Cajamarca Project

On August 12, 2011 the Company entered into a share purchase agreement ("Cajamarca SPA") and shareholder agreement ("Cajamarca SA") with Miranda Gold Corp. ("Miranda"). Pursuant to the Cajamarca SPA, Miranda assigned 70% of the shares of Miranda Gold Colombia IV Ltd. ("MAD IV"), a wholly-owned subsidiary of Miranda, to the Company. The activities of MAD IV will be governed by the Cajamarca SA. To maintain its shareholding in 70% of MAD IV the Company must make an aggregate US$4,000,000 contribution over five years as follows:

Exploration expenditures:	
On or before first anniversary	$ 500,000
On or before second anniversary	750,000
On or before third anniversary	750,000
On or before fourth anniversary	1,000,000
On or before fifth anniversary	1,000,000
	$ 4,000,000

Exploration at Cajamarca is currently on hold due to security concerns. Miranda has agreed to defer the exploration commitments until the security situation improves, at which point the exploration timetable noted above will reset. $265,732 in exploration expenditures have been made to date.

Upon the Company's sole funding to an aggregate US$4,000,000 then 51 of the 70 shares will not be subject to forfeiture or transfer provisions back to Miranda. These funds will be used to fund exploration work at the Cajamarca project. Within 180 days of earning a 51% vested interest, the Company can elect to further sole fund MAD IV at a minimum of US$1,000,000 per year and either complete a bankable feasibility study within eight years or contribute a minimum of US$10,000,000 within 10 years. Upon completion of the funding the remaining 19 of the 70 shares will not be subject to forfeiture or transfer provisions back to Miranda.

On December 10, 2010 Miranda entered into an option agreement with Expogold to acquire the Cajamarca, project (the "Cajamarca Option"). The commitments under the Cajamarca Option are the responsibility of the Company pursuant to the Cajamarca SA. Cash payments are made directly by MAD IV, and for every share issued by Miranda to Expogold, the Company will issue one common share to Miranda. The schedules of shares to be issued and US dollar cash payments to be made are as follows:

7. MINERAL PROPERTIES (continued)

Cajamarca project (continued)

Cash payments:		
Upon execution of Cajamarca Option (paid)	$	10,000
On or before December 10, 2011 (paid)		20,000
On or before December 10, 2012 (paid)		30,000
On or before December 10, 2013		40,000
On or before December 10, 2014		50,000
On or before December 10, 2015		60,000
	$	**210,000**

Share issuances	**Number of common shares**
Upon execution of Cajamarca Option (issued)	10,000
On or before December 10, 2011 (issued)	20,000
On or before December 10, 2012 (issued)	30,000
On or before December 10, 2013	60,000
On or before December 10, 2014	80,000
On or before December 10, 2015	100,000
	300,000

In addition, commencing on December 10, 2016, and payable on each succeeding anniversary, MAD IV must pay $100,000 and deliver 100,000 common shares of Miranda to Expogold until the date on which there is a defined measured and indicated mineral resource within a defined area of interest of greater than 250,000 total ounces of gold or gold equivalent, which complies with an independent NI 43-101 compliant technical report (the "Cajamarca Defined Resource"). Once there is a Cajamarca Defined Resource, MAD IV will be required to make one of the following additional payments to Expogold:

- If the Cajamarca Defined Resource is greater than 250,000 ounces, but less than 500,000 ounces, MAD IV shall pay US$100,000; or
- If the Cajamarca Defined Resource is equal to or greater than 500,000 ounces, MAD IV shall pay US$250,000.

In addition, MAD IV shall pay to Expogold for each of the following milestones:

- US$250,000 upon completion of a feasibility study;
- US$500,000 upon achieving commercial production;
- US$500,000 upon producing 250,000 ounces of gold or gold equivalent ounces;
- US$750,000 upon producing 500,000 ounces of gold or gold equivalent ounces; and
- US$1,000,000 upon producing 1 million ounces of gold or gold equivalent ounces.

Each of the above payments may be in cash or common shares of Miranda. Thereafter, MAD IV shall pay US$1 million for each 1 million ounces of gold or gold equivalent ounces produced.

8. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued during the year ended December 31, 2012

Details of common shares issued the year ended December 31, 2012 are as follows:

- 1,035,000 shares were issued as part consideration for mineral property purchases. (See note 7)
- 21,436,959 shares were issued at a price of $0.55 as part of a financing for gross proceeds of $11,790,327, incurring $504,084 share issue costs.

Issued during the year ended December 31, 2011

- On January 6, 2011, the Company issued 1,666,666 units consisting of one share and one half share purchase warrant at a price of $0.75 per unit for gross proceeds of $1,250,000. The warrants were valued at $250,000 (see note 8c) and recorded within warrant reserve and the residual amount of $1,000,000 was recorded as share capital. The Company also issued 50,000 shares as a share issue cost at a value of $0.75 per share, representing the value on the date of issuance.
- On June 24, 2011 the Company completed its initial public offering ("IPO") and issued 11,497,100 units consisting of one share and one half share purchase warrant at a price of $1.25 per unit for gross proceeds of $14,371,375. The 5,748,550 warrants were valued at $1,437,138 (see note 8c) and this was recorded within warrants reserve. The residual amount of $12,934,237 was recorded as share capital. The Company also issued 344,913 Agents warrants which were valued at $100,025 (see note 8c). Cash costs relating to the IPO were $1,216,520. The Company recorded an amount of $82,671 within professional fees as a listing expense and $1,133,849 within equity as share issue costs.
- The Company issued 170,000 common shares to Miranda in accordance with the terms of the Pavo Option and the Cajamarca Option (see note 7). The fair value of the shares issued has been estimated as $165,400.

8. SHARE CAPITAL (continued)

c) Warrants

During 2012 no warrants were issued, and 344,913 Agents' warrants expired unexercised. There were no other movements in warrants during the year ended December 31, 2012.

The following summarizes the movements in outstanding warrants during the years ended December 31, 2011 and 2012:

	Number Outstanding		Weighted Average Exercise Price
Balance December 31, 2010	4,500,000	$	0.25
Issued	6,926,796	$	1.46
Balance December 31, 2011	**11,426,796**	**$**	**0.98**
Expired	(344,913)	$	1.25
Balance, December 31, 2012	**11,081,883**	**$**	**0.97**

The following summarizes the share purchase warrants outstanding at December 31, 2012:

Expiry Date	Warrants Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)
June 28, 2013	5,748,550		1.50	0.49
June 28, 2013	833,333		1.25	0.49
February 12, 2015	4,500,000		0.25	2.12
	11,081,883	**$**	**0.97**	**1.15**

Warrants issued during 2011 were valued as follows:

- 833,333 warrants were issued as part of the units issued on January 6, 2011. They were valued at $0.30 per warrant for a total value of $250,000 using the Black-Scholes option valuation model with variables as disclosed in the table below
- 5,748,550 warrants were issued as part of the units issued on June 24, 2011. They were valued at $0.25 for a total value of $1,437,138 by reference to the closing price on the day the warrants were listed, July 5, 2011.
- 344,913 Agents warrants were issued as share issue costs on June 24, 2011. They were valued at $0.29 for a total value of $100,025 using the Black-Scholes option valuation model with variables as disclosed in the table below. These warrants expired unexercised during 2012.

Issuance date		January 6, 2011		June 24, 2011
Share price on measurement date	$	0.75	$	1.25
Exercise price	$	1.25	$	1.25
Risk-free interest rate		1.74%		1.45%
Expected annual volatility		100%		46%
Expected life (years)		2		2
Expected dividend yield		0%		0%
Fair value at measurement date	$	0.30	$	0.29

8. SHARE CAPITAL (continued)

d) Options

On April 27, 2011, the Board of Directors adopted an incentive share purchase option plan (the "Option Plan") which provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with TSX-V regulations, grant to directors, officers, employees and service providers to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

- On July 19, 2012 the Company granted 250,000 options exercisable at $0.50 with a term of 5 years to an officer of the Company. The options vest in tranches over 18 months. On December 18, 2012 the Company modified 187,500 of these options, upon departure of the officer, to vest in full on December 31, 2012 and expire on March 31, 2013. The revised fair value of the unvested options was $0.04 per share resulting in a reduction in the expense.
- On December 6, 2012 the Company granted 2,305,000 options to directors, employees and consultants of the Company. The options are exercisable at $0.55 and have a term of 5 years. Options vest in tranches of up to 24 months.
- On December 18, 2012 the Company modified 187,500 options to vest in full on December 31, 2012 and expire on March 31, 2013. The revised fair value of the unvested options was $0.04 per share resulting in a reduction in the expense.

A summary of the status of options granted under the option plan as at December 31, 2012 and 2011, and the changes for the years then ended are as follows:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Measurement Date Fair Value
Outstanding, January 1, 2011	-	-	-
Granted,	3,545,000	1.23	0.71
Expired	(103,750)	1.25	0.65
Forfeited	(311,250)	1.25	0.66
Outstanding, December 31, 2011	**3,130,000**	**$ 1.23**	**$ 0.71**
Granted,	2,555,000	0.55	0.31
Expired	(110,000)	1.08	0.42
Forfeited	(110,000)	1.08	0.45
Outstanding, December 31, 2012	**5,465,000**	**$ 0.91**	**$ 0.54**

8. SHARE CAPITAL (continued)

The following summarizes information about share options outstanding and exercisable at December 31, 2012:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted Average Remaining Contractual Life (in Years)
June 28, 2016	2,550,000	2,550,000	$ 1.25	3.49
July 28, 2016	200,000	200,000	1.25	3.58
December 6, 2016	160,000	120,000	1.00	3.93
March 31, 2013 *	250,000	250,000	0.50	0.25
December 6, 2017	2,305,000	1,457,500	0.55	4.93
	5,465,000	**4,577,500**	**$ 0.91**	**3.97**

**These options expired unexercised on March 31, 2013.*

The Company has calculated the fair value of options granted or modified using the Black-Scholes option valuation model with the following variables:

Grant Date	July 19, 2012	December 6, 2012	December 18, 2012
Share price on measurement date	$0.54	$0.46	$0.42
Exercise price	$0.50	$0.55	$0.50
Risk-free interest rate	1.00% - 1.05%	1.08% - 1.26%	0.14%
Expected annual volatility	100%	100%	80%
Expected life (years)	2.5 - 3.25	2.5 - 5.0	0.25
Expected dividend yield	0%	0%	0%
Fair value at measurement date	$0.32 - $0.36	$0.25 - $0.33	$ 0.04

The Company applied a forfeiture rate of 5% on grant of options which vest. Volatility is estimated based on actual volatility for the company since IPO and a review of comparable exploration stage Colombia focused TSXV listed companies.

The expense for the year ended December 31, 2012 is $637,580 (2011: $2,117,043) and has been recorded in the statement of comprehensive income as follows:

	Canada	Santa Rosa	Pavo Real	Total
Investor relations	$ 25,110	$ -	$ -	$ 25,110
Mineral property exploration costs	-	138,813	14,641	153,454
Office and administration - directors	240,441	-	-	240,441
Office and administration - non directors	87,063	-	-	87,063
Salaries and benefits	131,512	-	-	131,512
	$ 484,126	**$ 138,813**	**$ 14,641**	**$ 637,580**

Amounts recorded as mineral property expenditures are all sub-categorized as salaries and consulting fees.

8. SHARE CAPITAL (continued)

e) Reserves

Stock Option Reserve
Share option based payments are recognized in the Stock option reserve until exercised. Upon exercise, common share are issued from treasury and the amount in share option reserve is reclassified into share capital, adjusted for any consideration paid.

Warrants Reserve
The fair value of warrants issued is recognized in the Warrants reserve until exercised. Upon exercise, common share are issued from treasury and the amount in Warrants reserve is reclassified into share capital, adjusted for any consideration paid.

Foreign Exchange Reserve
The exchange difference recognized on translating foreign operations for their functional currency (Colombian Peso) into the presentation currency (Canadian dollars) is recorded within other comprehensive income and recognized in the Foreign Exchange Reserve.

9. INCOME TAXES

The Companies in Canada are subject to Canadian federal and provincial tax for the estimated assessable profit for the year ended December 31, 2012 at a rate of 25%. The Company had no assessable profit in Canada for the year ended December 31, 2012.

The Company's branches in Colombia are subject to tax for the years ended December 31, 2012 and 2011 at a rate of 33%.

The income tax expense for the Company can be reconciled to the net loss for the period per the Consolidated Statement of Comprehensive Loss as follows:

		Year ended December 31, 2012		**Year ended December 31, 2011**
Net loss for the year	$	12,198,024	$	10,081,715
Statutory tax rate		25.0%		26.5%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	$	3,049,506	$	2,671,654
Net impact of changes in tax rates		-		(107,989)
Tax effect of tax losses and temporary differences not recognized		(3,010,083)		(1,891,186)
Non-deductible expenses		(209,394)		(672,479)
Other		169,971		-
Tax recovery for the year	**$**	**-**	**$**	**-**

9. INCOME TAXES (continued)

The Company's unrecognized deductible temporary differences are as follows:

	As at December 31, 2012	As at December 31, 2011
Mineral properties	$ 16,035,606	$ 6,083,644
Property, plant and equipment	306,577	153,324
Share issue costs	1,273,940	1,091,020
Tax loss carry-forwards	5,021,900	2,765,620
Others	5,680	5,680
Total unrecognized deductible temporary differences and unused tax losses	**$ 22,643,703**	**$ 10,099,288**

At December 31, 2012, the Company has unrecognized non-capital losses for Canadian income tax purposes of approximately $5,021,900 that may be used to offset future taxable income and expire as follows:

Year of expiry	
2028	15,523
2029	608,687
2030	870,184
2031	1,287,606
2032	2,239,900
	$ 5,021,900

10. RELATED PARTY TRANSACTIONS

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Red Eagle Mining de Colombia Limited	Canada	Exploration company	100%
Rovira Mining Limited	Canada	Exploration company	70%
Miranda Gold Colombia IV Ltd.	Canada	Exploration company	70%

The aggregate value of key management compensation is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Short-term employee benefits	**$ 889,849**	$ 431,634
Share option based payments	**255,072**	1,272,540
	$ 1,144,921	$ 1,704,174

The following table provides the total amount of transactions which have been entered into by the Group with related parties during the years ended December 31, 2012 and 2011 and the balances with related parties at December 31, 2012 and 2011:

		Purchases from	**Amounts due from (to)**
Consulting fees from Quantum Advisory Partners LLP, a partnership	2012	$ -	$ -
in which Paul Robertson, the former CFO of the Company, is a partner;	2011	$ 63,620	$ -
Office, rent and related costs from SB Management Ltd, a company	2012	$ 500,000	$ 50,000
controlled by Ian Slater, Robert Bell and Tim Petterson	2011	$ 450,000	$ -
Legal fees to a Anfield Sujir Kennedy & Durno LLP, a partnership in	2012	$ 136,365	$ (23,000)
which Jay Sujir, one of the directors of the Company, is a partner;	2011	$ 148,109	$ (24,202)
Secondment of a project geologist from Slater Mining Corporation,	2012	$ 117,000	$ (12,500)
a company with the following directors in common: Ian Slater,	2011	$ -	$ -
Robert Bell, Tim Petterson, Jay Sujir and Jeffrey Mason			

Ian Slater is a director common to both the Company and Miranda Gold Corp., which entered into share purchase and shareholder agreements on the Pavo Real and Cajamarca Projects as described in Note 7.

11. SEGMENTED INFORMATION

The Company has one operating segment, which is the exploration and development of mineral properties. The Company's net assets are distributed in two geographic regions: Canada and Colombia, as follows:

		Canada		Colombia		Total
As at December 31, 2012						
Cash and cash equivalents	$	15,627,796	$	266,175	**$**	**15,893,971**
Amounts receivable		122,568		152		**122,720**
Prepaid expenses		311,751		230,763		**542,514**
Equipment		13,580		483,923		**497,503**
Mineral properties		-		3,328,756		**3,328,756**
	$	**16,075,695**	**$**	**4,309,769**	**$**	**20,385,464**
Accounts payable and accrued liabilities		(202,954)		(633,943)		**(836,897)**
Mineral property obligation		-		(6,198,750)		**(6,198,750)**
	$	**15,872,741**	**$**	**(2,522,924)**	**$**	**13,349,817**

		Canada		Colombia		Total
As at December 31, 2011						
Cash and cash equivalents	$	4,827,746	$	334,021	**$**	**5,161,767**
Other financial assets		4,400,000		-		**4,400,000**
Amounts receivable		113,660		16,394		**130,054**
Prepaid expenses		134,535		242,315		**376,850**
Equipment		-		545,386		**545,386**
Mineral properties		-		3,441,594		**3,441,594**
	$	**9,475,941**	**$**	**4,579,710**	**$**	**14,055,651**
Accounts payable and accrued liabilities		(158,565)		(771,472)		**(930,037)**
	$	9,317,376	$	3,808,238	**$**	**13,125,614**

Net loss for the year ended December 31, 2012	$	2,516,659	$	9,681,365	**$**	**12,198,024**
Net loss for the year ended December 31, 2011	$	3,891,148	$	6,190,567	**$**	**10,081,715**

12. COMMITMENTS AND CONTINGENCIES

The Company has to make certain cash and share payments, as well as exploration expenditures in order to meet the terms of the mineral property option agreements as discussed in Note 7

In addition the Company has a number of short term operating leases and equipment rental leases relating to the Colombian offices and camps. The total minimum lease payments under these contracts are as follows:

	Less than one year	**Between one and two years**
Office and camp rental	123,768	64,372
Equipment rental	67,603	-
	191,371	64,372

The Company has no contingencies or off balance sheet arrangements as at December 31, 2012.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may pay dividends to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

14. SUPPLEMENTAL CASH FLOW INFORMATION

		2012		2011
Cash Payments for interest and taxes				
Cash paid during the year for interest	**$**	**-**	$	-
Cash paid during the year for income taxes		**-**		-
Non cash transactions				
Mineral Property obligations	**$**	**6,198,750**	**$**	**-**
Accrued share issue costs		**16,359**		-
Accrued mineral property acquisition costs		**5,315**		-
Shares issued for Mineral Properties		**528,050**		165,400

15. FINANCIAL INSTRUMENTS

The Company has designated its cash and receivables as loans and receivables; short-term investments as held-for-trading and accounts payable as other financial liabilities at amortized cost.

a) Fair value

The fair value of these financial instruments approximates their carrying value, due to the short-term nature of these instruments.

The fair value of financial instruments at December 31, 2012 is summarized as follows:

		December 31, 2012	
		Carrying amount	Fair value
Financial Assets			
Cash and cash equivalents	*Loans and receivables*	$ 15,893,971	$ 15,893,971
Other financial assets	*Held-for-trading*	-	-
Amounts receivable	*Loans and receivables*	122,720	122,720
Financial Liabilities			
Accounts payable	*Amortized Cost*	836,897	836,897
Mineral Property obligation	*Amortized Cost*	6,198,750	6,198,750

The IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data.

The fair value of all the financial instruments is measured by using the unadjusted quoted price in active markets for identical assets and liabilities (Level 1).

15. FINANCIAL INSTRUMENTS (continued)

a) Financial risk management

Credit risk

The Company is exposed to credit risk with respect to its cash, cash equivalents and other financial assets. Other financial assets are short term investments that have been placed on deposit with major Canadian financial institutions. All cash and cash equivalents are on deposit with major Canadian or Colombian financial institutions.

The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at major Canadian financial institutions.

Concentration of credit risk with respect to the Company's cash, cash equivalents and short term investments is mitigated since the amounts are held at several major Canadian financial institutions. The Company's concentration of credit risk and maximum exposure thereto is as follows:

		December 31, 2012		December 31, 2011
Held at major Canadian financial institutions:				
Cash and cash equivalents	**$**	**15,627,796**	$	4,827,746
Short-term investments		**-**		4,400,000
	$	**15,627,796**	$	9,227,746
Held at major Colombian financial institutions:				
Cash and cash equivalents		**266,175**		334,021
Total cash and short-term investments	**$**	**15,893,971**	$	9,561,767

The credit risk associated with cash, cash equivalents and short term investments is minimized by ensuring the majority of these Canadian financial assets are held with major Canadian financial institutions with strong investment-grade ratings by a primary rating agency. The amounts held in Colombia are with a major Colombian financial institution.

The short term investments classified as "Other financial assets" as at December 31, 2011 matured during the year ended December 31, 2012 and all proceeds were reinvested in short term liquid assets which meet the definition of cash equivalents.

Interest rate risk

The Company has cash balances, investment-grade short-term deposit certificates issued by banking institutions. Interest income is not material to the Company. The Company is not exposed to significant interest rate risk.

15. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Foreign currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

Certain of the Company's cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities are held in Colombian Peso ("COP"); therefore, COP amounts are subject to fluctuation against the Canadian dollar (CAD).

The Company had the following balances in foreign currency as at December 31, 2012:

	COP		CAD Equivalent
Cash	471,997,219	$	266,175
Amounts receivable	270,000		152
Accounts payable and accrued liabilities	(1,124,140,947)		(633,943)
	(651,873,728)	$	(367,616)

Assuming that all other variables remain constant, a 10% appreciation or depreciation of the COP against the CAD would have a negligible impact on net loss since translation of the COP functional currency to the presentation currency results in translation differences being recorded within other comprehensive income.

The Company also has transactional currency exposures. Such exposures arise from purchases in currencies other than the respective functional currencies, typically the US dollar. The Company manages this risk by matching receipts and payments in the same currency and monitoring.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to significant other price risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company anticipates that there is sufficient capital and liquidity to meet liabilities when due.

The Company maintained sufficient cash and cash equivalents at December 31, 2012 in the amount of $15,893,971 (2011: Cash and cash equivalents $5,167,767, other financial assets $4,400,000) in order to meet short-term business requirements. At December 31, 2012, the Company had accounts payable of $836,897 (2011: $930,037), which will be paid within three months and a mineral property obligation of $6,198,750 which will be paid in November 2013 (see note 7).