TANGO GOLD MINES INCORPORATED (formerly F.D.G. Mining Inc.)

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended August 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Tango Gold Mines Incorporated (formerly F.D.G. Mining Inc.)

We have audited the accompanying consolidated financial statements of Tango Gold Mines Incorporated (formerly F.D.G. Mining Inc.), which comprise the consolidated statements of financial position as at August 31, 2013, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, 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 audit. We conducted our audit 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 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 presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 Tango Gold Mines Incorporated (formerly "F.D.G. Mining Inc.) as at August 31, 2013 and its financial results and cash flows for the year then ended, 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 the Company has not yet achieved profitable operations and as at August 31, 2013 has an accumulated deficit of $11,262,412. 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.

Other Matter

The financial statements of Tango Gold Mines Incorporated (formerly "F.D.G. Mining Inc.) for the year ended August 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on December 11, 2012.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, British Columbia
December 13, 2013

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TANGO GOLD MINES INCORPORATED (formerly F.D.G. Mining Inc.)
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

As at		August 31, 2013		August 31, 2012
Assets				
Current Assets				
Cash and cash equivalents	$	**1,467,081**	$	139,332
Other receivables		**42,106**		15,325
Prepaid expenses (Note 13)		**25,086**		13,063
		1,534,273		167,720
Property, plant and equipment (Note 9)		**42,495**		47,079
	$	**1,576,768**	$	214,799
Liabilities				
Current Liabilities				
Trade and other payables	$	**285,544**	$	222,526
Promissory notes payable (Note 10)		**170,000**		75,000
Due to related parties (Note 15)		**-**		92,642
		455,544		390,168
Shareholders' Equity (Deficit)				
Share capital (Note 10)		**10,208,226**		6,885,784
Shares to be issued (Note 10)		**130,000**		-
Reserve for warrants		**297,590**		113,771
Reserve for share based payments		**1,705,750**		1,214,202
Reserve for foreign exchange losses		**42,070**		88,859
Accumulated deficit		**(11,262,412)**		(8,477,985)
		1,121,224		(175,369)
	$	**1,576,768**	$	214,799

"Antonio Ponte"	Executive Chairman	*"Philipp Hoch"*	CFO
Antonio Ponte		Philipp Hoch	

The accompanying notes are an integral part of these financial statements

TANGO GOLD MINES INCORPORATED (formerly F.D.G. Mining Inc.)
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

		August 31, 2013		August 31, 2012
Expenses				
Professional fees	$	**196,913**	$	158,498
Amortization		**17,092**		12,984
Management and consulting (Note 15)		**328,601**		601,312
Travel and promotion		**184,423**		110,451
Exploration and evaluation expenses		**901,339**		1,546,068
Share based payments (Note 11)		**500,736**		476,000
Finance charge (Note 10)		**175,683**		-
Office and general		**223,546**		406,235
Shareholder information		**62,726**		37,806
Foreign exchange (gain) loss		**127,205**		158,014
Loss before the undernoted		**2,718,264**		3,507,368
Write-down of property, plant and equipment		**7,855**		27,461
Loss on debt settlement (Note 10)		**58,308**		-
Net loss		**2,784,427**		3,534,829
Comprehensive loss				
Net loss		**2,784,427**		3,534,829
Exchange differences on translating foreign operations		**46,789**		(102,257)
		2,831,216		3,432,572
Loss per share-basic and diluted	$	**0.05**	$	0.08
Weighted average number of shares outstanding		59,121,196		44,162,257

The accompanying notes are an integral part of these financial statements

TANGO GOLD MINES INCORPORATED (formerly F.D.G. Mining Inc.)
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Share based payments	Warrants	Foreign Exchange	Subscriptions	Deficit	Total
Balance, September 1, 2011	**43,996,971**	**$ 6,773,179**	**$ 738,202**	**$ 154,700**	**$ (13,398)**	**$ -**	**$ (4,943,156)**	**$ 2,709,527**
Share based payments	-	-	476,000	-	-	-	-	476,000
Exercise of warrants	286,704	71,676	-	-	-	-	-	71,676
Exercise of warrants	-	40,929	-	(40,929)	-	-	-	-
Currency translation adjustment	-	-	-	-	102,257	-	-	102,257
Net loss for the period	-	-	-	-	-	-	(3,534,829)	(3,534,829)
Balance, August 31, 2012	**44,283,675**	**$ 6,885,784**	**$ 1,214,202**	**$ 113,771**	**$ 88,859**	**$ -**	**$ (8,477,985)**	**$ (175,369)**
Shares issued (Note 10)	**35,068,513**	**3,303,254**	**-**	**183,819**	**-**	**-**	**-**	**3,487,073**
Share subscriptions	**-**	**-**	**-**	**-**	**-**	**130,000**	**-**	**130,000**
Share based payments	**-**	**-**	**500,736**	**-**	**-**	**-**	**-**	**500,736**
Exercise of options	**100,000**	**19,188**	**(9,188)**	**-**	**-**	**-**	**-**	**10,000**
Currency translation adjustment	**-**	**-**	**-**	**-**	**(46,789)**	**-**	**-**	**(46,789)**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(2,784,427)**	**(2,784,427)**
Balance, August 31, 2013	**79,452,188**	**$ 10,208,226**	**$ 1,705, 750**	**$ 297,590**	**$ 42,070**	**$ 130,000**	**$ (11,262,412)**	**$ 1,121,224**

The accompanying notes are an integral part of these financial statements

TANGO GOLD MINES INCORPORATED (formerly F.D.G. Mining Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended		**August 31, 2013**		August 31, 2012
Operating Activities				
Net loss	$	**(2,784,427)**	$	(3,534,829)
Adjustments to reconcile net loss to cash flow from operating activities:				
Share based payments (Note 11)		**500,736**		476,000
Property acquisition costs (Note 8)		**63,000**		-
Bonus shares (Note 10)		**115,708**		-
Loss on settlement of debt		**58,308**		-
Loss on disposal of property, plant and equipment		**7,855**		27,461
Amortization		**17,092**		12,984
Unrealized foreign exchange gain (loss)		**(127,205)**		109,476
Net change in non-cash working capital items:				
AR and Advances		**(26,781)**		36,483
Prepaid expenses		**(12,023)**		24,440
AP and Accrued liabilities		**421,809**		85,193
Due to related parties		**(92,642)**		34,200
Cash flow used in operating activities		**(1,858,570)**		(2,728,592)
Financing Activities				
Private placements, net		**3,031,266**		71,676
Promissory note received		**531,000**		75,000
Promissory note (paid)		**(436,000)**		-
Cash flow provided from financing activities		**3,126,266**		146,676
Investing Activities				
Purchase of property, plant and equipment		**(20,362)**		(32,035)
Cash flow used in investing activities		**(20,362)**		(32,035)
Foreign exchange on holding foreign currency		**80,415**		(857)
Net increase (decrease) in cash and cash equivalents		**1,327,749**		(2,614,808)
Cash, and cash equivalents, beginning of period		**139,332**		2,754,140
Cash, and cash equivalents, end of period	$	**1,467,081**	$	139,332

The accompanying notes are an integral part of these financial statements

1. CORPORATE INFORMATION

Tango Gold Mines Incorporated ("the Company" formerly known as F.D.G. Mining Inc.) was incorporated under the British Columbia Business Corporations Act on April 10, 2007. The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. On April 13, 2007, the Company acquired all of the issued and outstanding common shares of F.D.G. Mining Inc. ("FDG Nevada") a company incorporated under the laws of the State of Nevada on April 20, 2006 from a director of the Company. As a result of this transaction, the entity is considered to be a continuation of FDG Nevada. The Company is listed on the TSX Venture Exchange, having the symbol TGV, and is in the process of exploring its mineral properties.

The address of the Company's corporate office and principal place of business is 5626 Larch Street, Suite 202, Vancouver, BC, V6M 4E1.

2. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

As at August 31, 2013 the Company has not yet determined whether its mineral property contains reserves that are economically recoverable. The recoverability of amounts spent on mineral property acquisition and exploration is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral property in accordance with industry practice, the ability of the Company to obtain necessary financing to complete development of its mineral property and upon future profitable production.

At August 31, 2013, the Company had not yet achieved profitable operations, has accumulated losses of $11,262,412 (August 31, 2012 - $8,477,985) since inception and expects to incur further losses in the development of its business, all of which may cast significant doubt on the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. 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. BASIS OF PRESENTATION

3.1 Statement of compliance

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").

These consolidated financial statements for the years ended August 31, 2013 and 2012 were reviewed and authorized for issue by the Board of Directors on December 13, 2013.

3.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

The preparation of financial statements in compliance with IFRS requires management to make certain 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 or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Mineral Exploration and Evaluation Expenditures

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

The Company's property is currently in the Exploration and Evaluation ("E&E") stage.

Acquisition and E&E expenditures incurred prior to the date of a positive economic analysis on the property and expensed as incurred. Direct costs incurred for the development of mineral properties, net of cost recoveries, are capitalized once the technical feasibility and commercial viability of extracting the mineral resource has been determined.

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated proven and probable reserves as the depletion base.

4.2 Foreign Currency Transactions

The functional currency of Tango Gold Mines Incorporated, the parent, is the Canadian Dollar and FDG Mining S.A. and Tango Gold S.A., the Nicaragua subsidiaries, are Nicaraguan Cordoba Oro ("NIO") (collectively "the Functional Currency"). The Presentation currency of the consolidated financial statements is the Canadian Dollar. Foreign currency accounts are translated into the Presentation Currency as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the Functional Currency by the use of the exchange rate in effect at that date. At the period end date, unsettled monetary assets and liabilities are translated into the Functional Currency by using the exchange rate in effect at the period end and the related translation differences are recognized in the Company's profit or loss. Exchange gains and losses arising on the retranslation of held-for-trading financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in the Company's profit or loss. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into the Functional Currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into the Functional Currency by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive loss, consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

4.2 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

4.3 Equipment

Recognition and Measurement

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

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 equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Subsequent Costs

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

Major Maintenance and Repairs

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

Upon sale or abandonment, the cost of the property and equipment and related accumulated depreciation or depletion, are removed from the accounts and any gains or losses thereon are included in operations.

Amortization

Amortization in profit or loss is provided on a straight-line basis over the estimated useful life of the assets as follows:

- Office computers and software 33%
- Office furniture 20%
- Field equipment 33%
- Vehicles 12.5%

4.4 Income Taxes

Income tax expense comprises of 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.

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.

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 period 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.

4.5 Loss per share

Basic profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period.

Diluted profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares, by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted at the beginning of the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Share based payments

Where equity-settled share options are awarded to employees or non-employees, the fair value of the options at the date of grant is charged to the Company's profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date, are taken into account so that the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modifications, is charged to the Company's profit or 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 the Company's profit or 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 Company's profit or 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 effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share based payments are reflected in equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in equity reserve 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 immediately 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 that the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories 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 for each category 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 of 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 accounts payable and accrued liabilities, promissory notes payable and amounts due to related parties. 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 redemptions, 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 period which are unpaid. Trade payable amounts are unsecured and are usually paid within forty-five days of recognition.

The Company has made the following designations of its financial instruments:

Cash and cash equivalents	Loans and receivables
Other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Promissory notes payable	Other financial liabilities
Due to related parties	Other financial liabilities

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Standards, amendments and interpretations not yet effective

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has also issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and FVTPL. IFRS 9 also replaces the models for measuring equity instruments, and such investments are either recognized at FVTPL or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for annual accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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. This standard is effective for the annual accounting period beginning on or after January 1, 2013. The implementation of this standard will not have a material impact on the Company's consolidated financial statements.

IFRS 12 Disclosure 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 intends to adopt the standard no later than the annual accounting period beginning on or after July 1, 2013. The adoption of this Standard will not have a significant impact on the Company's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 Fair Value Measurement

IFRS 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. This standard is effective for the annual accounting period beginning on or after January 1, 2013. The implementation of this standard will not have a material impact on the Company's consolidated financial statements.

IAS 1 – Presentation of Financial Statements

IAS 1 requires an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendment to IAS 1 also requires that the tax related to the two separate groups be presented separately. The implementation of this standard will not have a material impact on the Company's consolidated financial statements.

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.

The Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company. As at August 31, 2013 the Company does not anticipate any impact from the adoption of the above standards, amendments and interpretations.

5. 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.

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

There are no initial estimates which significantly impact these financial statements.

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 consolidated financial statements within the next financial year are discussed below:

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Judgments:

5.1 Title to mineral property interests

Although the Company takes steps to verify title to mineral properties in which it has an interest, these procedures do no guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

5.2 Functional Currency

The functional currency for the Company and the Company's subsidiary is the currency of the primary economic environment in which the entity operates. The Company has determined that the functional currency of the parent and one of its subsidiaries is the CAD and the functional currency of the other subsidiaries is the NIO. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

6. CAPITAL RISK MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2013.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, reserves, and deficit, which as at August 31, 2013 totaled $1,121,224 (August 31, 2012 - $175,369 deficiency). There are no external restrictions on the Company's capital.

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as cash, and short term guarantee deposits, all held with major Canadian financial institutions.

7. FINANCIAL INSTRUMENTS

Fair Value

Cash and cash equivalents and other receivables are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Trade and other payables, promissory notes payable, and due to related parties are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also equals fair value. Fair value of other receivables and trade and other payables, promissory notes payable, and due to related parties are determined from transaction values, which were derived from observable market inputs. As at August 31, 2013, all financial instruments measured at fair value are considered level 1.

The carrying amount of cash and cash equivalents, other receivables, trade and other payables and promissory notes payables and due to related parties approximate fair value due to the relatively short term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price if one exists.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, and other receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable Canadian and Nicaraguan chartered banks which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents other receivables is minimal.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at August 31, 2013, the Company had a current assets of $1,534,273 (August 31, 2012 - $167,720) to settle current liabilities of $455,544 (August 31, 2012 - $390,168) resulting in working capital of $1,078,729 (August 31, 2012 – working capital deficit $222,448). All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

7. FINANCIAL INSTRUMENTS (continued)

Market Risks

a) Interest Rate Risk

The Company has cash balances and no variable interest bearing debt. The Company has fixed rates on its debt, changes in interest rates could result in fair value risk on the Company's fixed rate debt.

b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar. The Company operates in Canada and Nicaragua, giving rise to market risks from changes in foreign exchange rates. The Company believes that the results of the operations and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its Nicaraguan Cordoba Oro denominated obligations. A 1% increase/decrease in the Canadian/Nicaraguan Cordoba Oro exchange rate would results in a $Nil increase/decrease to the net loss for the year (2012: $56 increase/decrease)

8. MINERAL PROPERTIES

Topacio

Pursuant to a Definitive Agreement ("Topacio Agreement") dated April 30, 2010, and as amended on July 7, 2013, the Company has agreed to acquire the Topacio property located in the South Atlantic Autonomous Region of southern Nicaragua. The Company has the right to earn a 100% undivided interest in Topacio following the payment of US$3,000,000 on or before April 30, 2016. The Company has also agreed to make best efforts to invest at least US$1,000,000 in exploration and development and other work over 3 years on the Topacio property.

Pursuant to the amended Topacio Agreement the Company was obligated to make advance bi-annual payments in the amount of US$60,000 (October 30, 2012: US$60,000 paid).

On October 9, 2012, the Company modified the terms of the agreement whereby under the terms of the modified agreement, the Company has a three year extension of the Topacio Agreement in consideration for increasing its semi-annual option payments from US$60,000 to US$90,000 each, effective May 1, 2013, (May 1, 2013: US$90,000 paid) and issuing 420,000 common shares to IMISA (issued). The final balloon option payment of US$3,000,000 is now due on or before April 16, 2016. The Company is currently renegotiating the terms of the modified agreement. This agreement is subject to a 3% Net Smelter Royalty.

As at August 31, 2013, the Company has not yet made its bi-annual payment due October 30, 2013 in the amount of US$90,000. As of the date of these financial statements, the Company is in ongoing negotiations with the option holder regarding the compliance with the Topacio agreement terms, and a default notice has not been issued.

9. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment & Software	Furnishings	Vehicles	Construction in process	Total
Cost					
As at September 1, 2011	27,011	5,002	40,876	-	72,889
Additions	10,931	17,048	-	4,056	32,035
Disposals	(14,645)	(2,436)	(14,915)	-	(31,996)
Effect of foreign exchange	(6,042)	2,649	(2,982)	-	(6,375)
As at August 31, 2012	**17,255**	**22,263**	**22,979**	**4,056**	**66,553**
Additions	-	20,362	-	-	20,362
Disposals	(12,956)	(7,058)	-	-	(20,014)
Effect of foreign exchange	-	-	-	-	-
As at August 31, 2013	**4,299**	**35,567**	**22,979**	**4,056**	**66,901**
Accumulated Amortization					
Disposals	-				-
As at September 1, 2011	5,059	2,607	3,372	-	11,038
Additions	5,442	3,001	4,541	-	12,984
Removed on disposal	(2,966)	(111)	(2,797)	-	(5,874)
Effect of foreign exchange	279	2,094	(1,047)	-	1,326
As at August 31, 2012	**7,814**	**7,591**	**4,069**	**-**	**19,474**
Additions	5,694	8,526	2,872	-	17,092
Removed on disposal	(9,209)	(2,950)	-	-	(12,159)
Effect of foreign exchange	-	(1)	-	-	(1)
As at August 31, 2013	**4,299**	**13,166**	**6,941**	**-**	**24,406**
Net Book Value					
As at September 1, 2011	21,952	2,395	37,504	-	61,851
As at August 31, 2012	9,441	14,672	18,910	4,056	47,079
As at August 31, 2013	**-**	**22,401**	**16,038**	**4,056**	**42,495**

10. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

	Number of Shares	Stated Value
COMMON SHARES		
Balance, September 1, 2011	**43,996,971**	**6,773,179**
Exercise of warrants	286,704	71,676
Reserve transferred on exercise of warrants		40,929
Balance, August 31, 2012	**44,283,675**	**6,885,784**
Shares issued for property	420,000	63,000
Shares issued for bonus shares for promissory note private placement	890,060	115,708
Shares issued on private placement	30,550,000	3,055,000
Shares issued costs	-	(248,726)
Fair market value of finder's warrants issued	-	(183,819)
Shares issued in settlement of debt	3,208,453	502,091
Exercise of options (note 11)	100,000	19,188
Balance, August 31, 2013	**79,452,188**	**10,208,226**

Year ended August 31, 2013

On October 9, 2012, the Company issued 420,000 common shares, with a grant date fair value of $63,000, to IMISA pursuant to the modification of the Topacio property agreement, see note 5.

On October 31, 2012, the Company completed a non-brokered private placement of 531 units (“Units”) at a price of $1,000 per Unit for gross proceeds of $531,000. Promissory notes in the aggregate principal amount of $531,000 (the “Notes”) and a total of 890,060 “bonus” common shares of the Company were issued in connection with the private placement, all subject to a four month and one day hold period expiring March 1, 2013. The 890,060 bonus shares had a grant date fair value based on trading price of $115,708 ($0.13 per share) and included in finance charges in the statement of operations for the year ended August 31, 2013. The Notes are for a term of one year maturing October 31, 2013 and bear interest at the rate of 12% per annum, with the first year’s full interest of $120 per Note payable up front upon closing. The Notes were collateralized by a general security agreement over all present and after-acquired personal property of the Company, and were repaid in part in the amount of $361,000 on August 8, 2013. $170,000 (2012 - $75,000) in promissory notes remains owing at August 31, 2013.

10. SHARE CAPITAL (continued)

A cash finder's fee of $6,000 was paid on the gross proceeds raised under the private placement.

On March 22, 2013, the Company completed a non-brokered private placement where The Company sold a total of 30,550,000 units ("Units") at a price of $0.10 per Unit for gross proceeds of $3,055,000. Each Unit consisted of one common share (a "Share") and one transferable share purchase warrant (a "Warrant") to purchase an additional Share at a price of $0.12 for a period of 24 months, subject to acceleration by the Company upon 30 days notice if the closing price of the Company's shares on the TSX Venture Exchange equals or exceeds $0.25 for 20 consecutive trading days at any time after 4 month from closing. A finder's fees of 8% cash and 8% finder's warrants was payable in connection with the financing, each finder's warrant entitling the holder to purchase one Share of the Company at a price of $0.12 for a period of 24 months after closing, subject to acceleration on the same terms as the Warrants. All securities issued in connection with the financing are subject to a four month and one day hold period expiring on or about July 22, 2013. The fair value of the finders warrants was calculated as $183,819, using a black-scholes option pricing model using the assumptions in note 11. Other share issue costs totaled $248,726.

On August 8, 2013 the Company issued shares for certain creditors in the amount of $417,099 for 3,208,453 common shares at a price of $0.13. The Company recorded a loss on debt settlement of $58,308 in connection with the issuance of the shares.

As at August 31, 2013, the Company received $130,000 in subscriptions. In connection with a private placement closed on March 21, 2013 and is included in shares to be issued.

11. SHARE BASED PAYMENTS

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, 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. 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 TSX). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a 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. Stock options vest on grant date, except for certain investor relations consultants.

11. SHARE BASED PAYMENTS (continued)

A summary of stock options issued and outstanding is as follows:

	August 31, 2013			August 31, 2012		
		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price	Number of Options
Outstanding at beginning of year	$	0.19	3,725,000	$	0.25	3,150,000
Granted		0.13	5,225,000		0.17	2,750,000
Exercised		0.10	(100,000)		-	-
Expired		0.25	(1,525,000)		0.25	(2,175,000)
Outstanding at end of year		0.13	7,325,000		0.19	3,725,000
Exercisable at end of year		0.14	4,587,500		0.21	2,750,000

The following table provides additional information about outstanding stock options at August 31, 2013:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)		Weighted Average Exercise Price	No. of Options Currently Exercisable		Weighted Average Exercise Price – Exercisable Options
$ 0.10	1,851,000	3.88	$	0.10	1,501,000	$	0.10
$ 0.25	699,000	2.90	$	0.25	699,000	$	0.25
$ 0.13	3,775,000	4.59	$	0.13	1,887,500	$	0.13
$ 0.13	1,000,000	4.94	$	0.13	500,000	$	0.13
$ 0.10 - $ 0.25	7,325,000	4.30	$	0.13	4,587,500	$	0.14

11. SHARE BASED PAYMENTS (continued)

Share based payments

The following table summarizes the weighted average assumptions used with the Black-Scholes valuation model for the determination of the share based payments for the stock options issued for the year ended August 31, 2012 and 2012:

	August 31, 2013	August 31, 2012
Exercise price	$0.13	$0.16
Risk-Free Interest Rate	1.37%	1.49%
Expected Life	5	5
Volatility	156%	145%
Dividend Yield	-	-
Vesting	Immediate	2 years

On April 3, 2013 the Company granted 3,775,000 stock options to directors, officers, employees and consultants to purchase up to 3,775,000 common shares of the Company for a period of five years at an exercise price of $0.13 per share. The options vest 50% on the date of grant and 50% one year from the grant date. The Company recorded a charge of $343,923 in stock-based compensation. A weighted average fair value of $0.09 per share on the stock options granted was estimated using the Black-Scholes option pricing model with the assumptions listed in the table above.

On August 7, 2013 the Company granted 1,000,000 stock options to an officer to purchase up to 1,000,000 common shares of the Company for a period of five years at an exercise price of $0.13 per share. The options vest 50% on the date of grant and 50% one year from the grant date. The Company recorded a charge of $57,575 in stock-based compensation. A weighted average fair value of $0.06 per share on the stock options granted was estimated using the Black-Scholes option pricing model with the assumptions listed in the table above.

Total expenses arising from share-based payment transactions recognized during the year as part of stock-based compensation were $500,736 (2012: $476,000).

12. WARRANTS

	August 31, 2013			August 31, 2012		
		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price	Number of Warrants
Outstanding at beginning of year	$	0.25	770,416	$	0.25	1,057,120
Granted		0.12	32,670,420		-	-
Exercised		-	-		-	(286,704)
Expired		0.25	(770,416)		0.25	-
Outstanding at end of year		0.12	32,670,420		0.25	770,416

12. WARRANTS (continued)

The following table summarizes the assumptions used with the Black-Scholes valuation model for the years ended August 31, 2013 and 2012.

Grant date	August 31, 2013	August 31, 2012
Number of warrants	32,670,420	-
Exercise price	$0.12	-
Expected life	2 years	-
Volatility	157%	-
Risk-free interest rate	0.98%	-
Dividend yield	-	-

Exercise price	Issue date	Expiry date	Balance August 31, 2011	Issued	Expired	Exercised	Balance August 31, 2012
0.25	April 26, 2011	April 26, 2013	753,600	-	(230,400)	-	523,200
0.25	May 12, 2011	May 12, 2013	303,520	-	(56,304)	-	247,216
Total			1,057,120	-	(286,704)	-	770,416

Exercise price	Issue date	Expiry date	Balance August 31, 2012	Issued	Expired	Exercised	Balance August 31, 2013
0.25	April 26, 2011	April 26, 2013	523,200	-	(523,200)	-	-
0.25	May 12, 2011	May 12, 2013	247,216	-	(247,216)	-	-
0.25	March 21, 2013	March 21, 2015	-	26,000,000	-	-	26,000,000
0.25	March 22, 2013	March 22, 2015	-	6,670,420	-	-	6,670,420
Total			770,416	32,670,420	(770,416)	-	32,670,420

13. PREPAID EXPENSES

	August 31, 2013	August 31, 2012
Prepaid insurance	**$ 8,499**	$ 8,750
Prepaid interest on promissory notes	**9,930**	-
Other	**6,657**	4,313
Total prepaid expenses	**$ 25,086**	$ 13,063

14. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographic information comprising property, plant and equipment is as follows:

Geographic Segments

		August 31, 2013		August 31, 2012
Property, Plant and Equipment				
Canada	**$**	**-**	**$**	**-**
Nicaragua		**42,495**		47,079
Total	**$**	**42,495**	$	47,079

15. RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

The Company incurred the following expenditures charged by companies controlled by current and former directors and officers of the Company:

		August 31, 2013		August 31, 2012
Management fees	**$**	**26,958**	$	262,000
Consulting fees		**169,930**		231,000
Rent		**-**		6,000
	$	**196,888**	$	499,000

During the year ended August 31, 2013, aggregate remuneration of $196,888 (2012 – $493,000) was paid or accrued to key management personnel. Share-based payments of $423,138 (2012 – $103,328) were granted to key management personnel.

As at August 31, 2013, $Nil (August 31, 2012 - $92,642) is payable to the Vice-President of Exploration and a former director of the Company, a company with a former common officer and a company with a former common director and the current VP of corporate development, former chief financial officer and former chief executive officer. These amounts are unsecured, non-interest bearing and are due on demand.

As part of the promissory note private placement closed on October 31, 2012, the Company's former CFO, the VP of Corporate Development, and a director loaned the Company $20,000, $25,000 and $50,000 respectively. As at August 31, 2013, the Company repaid the directors $75,000 in 576,923 shares at a deemed price of $0.13 per share and $20,000 remains as promissory note payable at year-end.

All transactions with related parties were in the normal course of operations and are recorded at the exchange amount as agreed to by the parties involved.

16. EXPLORATION AND EVALUATION EXPENDITURES

The evaluation and exploration expenses for the Company are broken down as follows:

		Years ended				
		August 31, 2013		August 31, 2012		Cumulative to date
Topacio Property						
Acquisition expenditures	**$**	**213,916**	$	59,746	$	517,582
Exploration expenditures		**687,423**		1,486,322		3,043,141
Exploration and evaluation expenditures	**$**	**901,339**	$	1,559,052	$	3,560,723

17. COMMITMENTS

On-going commitments for capital resources relate largely to the maintenance of the mineral permits. Under Nicaraguan law, the concessions remain in good standing as long as the annual registration payments ($12.00 per hectare) are received by June of each year. One grace year is added in the event of a delinquent payment. The Company will spend the funds available to it to further its stated business objectives. Specifically, the available funds will be spent to explore and develop its Topacio property in Nicaragua and to make property payments on all of its properties in Nicaragua.

By an agreement dated, May 22, 2013, the Company entered into a one year office lease commencing May 31, 2014 with payments due of $1,400 USD per month from May 1, 2013 to May 31, 2014, as follows:

2013		5,307
2014		6,633
	$	**11,940**

18. INCOME TAXES

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

		August 31, 2013		**August 31, 2012**
Loss before income taxes	**$**	**(2,784,427)**	**$**	**(3,534,829)**
Income taxed at local statutory rates		**(709,000)**		**(957,000)**
Difference between Canadian and foreign tax rates		**(18,000)**		**(55,000)**
Change in future tax rates		**(40,000)**		**35,000**
Share issuance costs		**(65,000)**		**123,000**
Non-deductible expenses		**342,000**		**148,000**
Change in unrecognized deferred tax assets		**490,000**		**706,000**
Income tax expense/(recovery)	**$**	**-**	$	-

18. INCOME TAXES (continued)

Taxation in the Group's operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction. There is no deferred tax charge arising for the Group for the year.

Effective June 30, 2013, the Canadian Federal corporate tax rate remained the same at 15.00%, and the British Columbia provincial tax rate increased from 10.00% to 11.00%. The Nicaraguan income tax rate is approximately 30% (2012-30%).

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	August 31, 2013	August 31, 2012
Non-capital losses	**$ 1,288,000**	$ 819,000
Share issue costs	**128,000**	111,000
Exploration and evaluation assets	**457,000**	458,000
Other	**10,000**	5,000
	1,883,000	1,393,000
Unrecognized deferred tax assets	**(1,883,000)**	(1,393,000)
Net deferred tax assets	$ -	$ -

As at August 31, 2013, the Company has estimated non-capital losses totalling $4,285,000 in Canada that may be carried forward to reduce taxable income derived in future years, from 2015 to 2033.

19. SUBSEQUENT EVENTS

On October 30, 2013 the Company issued 19,000,000 common shares at $0.05 for gross proceeds of $950,000 in connection with a private placement.