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

## Interim Condensed Consolidated Financial Statements

## (Expressed in Canadian Dollars)

## For the three and six months periods ended

## February 28, 2014 and 2013

## (Unaudited)

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### NOTICE TO READER

Responsibility for Financial Statements:
The accompanying unaudited interim condensed consolidated financial statements of Tango Gold Mines Incorporated for the three and six months periods ended February 28, 2014 and 2013 have been prepared by management in accordance with International Financial Reporting Standards applicable to interim financial statements (see note 2 to the unaudited interim condensed consolidated financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the unaudited financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

Auditors Involvement:
The external auditors of Tango Gold Mines Incorporated have not audited or performed a review of the unaudited interim condensed consolidated financial statements for the three and six months periods ended February 28, 2014 and 2013.

**TANGO GOLD MINES INCORPORATED**

**MANAGEMENT'S RESPONSIBILITY FOR QUARTERLY FINANCIAL REPORTING**

The accompanying unaudited interim condensed consolidated financial statements of Tango Gold Mines Incorporated, are the responsibility of the management and Board of Directors of the Company.

The unaudited interim condensed consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim condensed consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited interim condensed consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Antonio Ponte"
Chief Executive Officer

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

| As at, | | February 28, 2014 | | August 31, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ | 1,363,281 | $ | 1,467,081 |
| Other receivables | | 81,360 | | 42,106 |
| Prepaid expenses (*Note 12*) | | 1,238 | | 25,086 |
| | | 1,445,879 | | 1,534,273 |
| **Non-current assets** | | | | |
| Property, plant and equipment (*Note 8*) | | 31,447 | | 42,495 |
| **TOTAL ASSETS** | **$** | 1,477,326 | $ | 1,576,768 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | $ | 156,381 | $ | 285,544 |
| Promissory notes payable (*Note 9*) | | 25,000 | | 170,000 |
| Due to related parties (*Note 14*) | | 42,741 | | - |
| | | 224,122 | | 455,544 |
| **Shareholders' Equity** | | | | |
| Share capital (*Note 9*) | | 11,140,771 | | 10,208,226 |
| Shares to be issued (*Note 9*) | | - | | 130,000 |
| Reserve for warrants | | 297,590 | | 297,590 |
| Reserve for share based payments | | 1,869,053 | | 1,705,750 |
| Reserve for foreign exchange losses | | 51,640 | | 42,070 |
| Accumulated deficit | | (12,105,850) | | (11,262,412) |
| | | 1,253,204 | | 1,121,224 |
| **TOTAL LIABILITIES AND EQUITY** | $ | 1,477,326 | $ | 1,576,768 |

**Nature of operations and going concern** *(note 2)*

**Commitments (***note 16***)**

Approved by the Board

Signed:

"Antonio Ponte"

Chief Executive Officer

Signed:

"Jennifer Boyle"

Chief Financial Officer

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

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (unaudited)

(Expressed in Canadian Dollars)

| | Three months ended February 28, 2014 | Three months ended February 28, 2013 | Six months ended February 28, 2014 | Six months ended February 28, 2013 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Professional fees | $ 35,421 | $ 64,194 | $ 49,244 | $ 125,082 |
| Amortization | 7,084 | - | 11,048 | - |
| Management and consulting (*Note 14*) | 113,000 | 127,270 | 232,602 | 218,441 |
| Travel and promotion | 21,272 | 2,205 | 78,311 | 31,245 |
| Exploration and evaluation expenses | (9,305) | 87,252 | 99,835 | 349,570 |
| Share based payments (*Note 10*) | 55,699 | 3,400 | 163,303 | 45,400 |
| Finance charge (*Note 9*) | (36) | - | 10,084 | 125,083 |
| Office and general | 18,738 | 74,122 | 157,073 | 170,804 |
| Shareholder information | 18,742 | 26,620 | 25,721 | 40,342 |
| Foreign exchange (gain) loss | (2,836) | 671 | 16,217 | 796 |
| **Net loss for the period** | $ 257,779 | $ 385,733 | $ 843,438 | $ 1,106,762 |
| **Other comprehensive (income)/loss** | | | | |
| Exchange differences on translating foreign operations | (17,587) | (20,799) | (51,640) | (17,245) |
| **Total comprehensive loss for the period** | $ 240,192 | $ 364,934 | $ 791,798 | $ 1,089,517 |
| **Basic and fully diluted loss per common share** | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.02 |
| **Weighted average number of shares outstanding** | 98,452,188 | 45,593,735 | 92,153,845 | 45,593,735 |

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

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

Interim Condensed Consolidated Statement of Changes in Equity (unaudited)

(Expressed in Canadian Dollars)

| | Share Capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Share based payments | Warrants | Foreign Exchange | Subscriptions | Deficit | Total |
| **Balance, August 31, 2012** | **44,283,675** | **$ 6,885,784** | **$ 1,214,202** | **$ 113,771** | **$ 88,859** | **$ -** | **$ (8,477,985)** | **$ (175,369)** |
| Share based payments | - | - | 45,400 | - | - | - | - | 45,400 |
| Share subscriptions | - | - | - | - | - | 150,000 | - | 150,000 |
| Shares issued for property | 420,000 | 63,000 | - | - | - | - | - | 63,000 |
| Shares issued for fees on promissory note private placement | 890,060 | 115,708 | - | - | - | - | - | 115,708 |
| Currency translation adjustment | - | - | - | - | 17,245 | - | - | 17,245 |
| Net loss for the period | - | - | - | - | - | - | (1,106,762) | (1,106,762) |
| **Balance, February 28, 2013** | **45,593,735** | **$ 7,064,492** | **$ 1,259,602** | **$ 113,771** | **$ 106,104** | **$ 150,000** | **$ (9,584,747)** | **$ (890,778)** |
| Shares issued, net of cost (*Note 10*) | 33,758,453 | 3,124,546 | - | 183,819 | - | - | - | 3,308,365 |
| Share subscriptions | - | - | - | - | - | (20,000) | - | (20,000) |
| Share based payments | - | - | 455,336 | - | - | - | - | 455,336 |
| Currency translation adjustment | - | - | - | - | (64,034) | - | - | (64,034) |
| Exercise of options | 100,000 | 19,188 | (9,188) | - | - | - | - | 10,000 |
| Net loss for the period | - | - | - | - | - | - | (1,677,665) | (1,677,665) |
| **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** |
| Shares issued, net (*Note 10*) | 19,000,000 | 932,545 | - | - | - | - | - | 932,545 |
| Share subscriptions | - | - | - | - | - | (130,000) | - | (130,000) |
| Share based payments | - | - | 163,303 | - | - | - | - | 163,303 |
| Currency translation adjustment | - | - | - | - | 9,570 | - | - | 9,570 |
| Net loss for the period | - | - | - | - | - | - | (843,438) | (843,438) |
| **Balance, February 28, 2014** | **98,452,188** | **$ 11,140,771** | **$ 1,869,053** | **$ 297,590** | **$ 51,640** | **$ -** | **$ (12,105,850)** | **$ 1,253,204** |

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

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

| For the six month periods ended February 28, | | 2014 | | 2013 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net loss for the period | $ | (843,438) | $ | (1,106,762) |
| Adjustments to reconcile net loss to cash flow from operating activities: | | | | |
| Share based payments (*Note 10*) | | 163,303 | | 45,400 |
| Property acquisition costs (*Note 7*) | | - | | 63,000 |
| Bonus shares (*Note 9*) | | - | | 115,708 |
| Amortization | | 11,048 | | 5,218 |
| Unrealized foreign exchange gain (loss) | | 9,570 | | (130,901) |
| Net change in non-cash working capital items: | | | | |
| Accounts receivables and advances | | (39,254) | | (3,724) |
| Prepaid expenses | | 23,848 | | 10,388 |
| Accounts payable and accrued liabilities | | (129,163) | | 197,057 |
| Due to related parties | | 42,741 | | 97,039 |
| **Cash flow used in operating activities** | | (761,345) | | (707,577) |
| **Financing Activities** | | | | |
| Private placements, net | | 932,545 | | 150,000 |
| Promissory notes issued | | - | | 456,000 |
| Share subscriptions | | (130,000) | | - |
| Promissory note (paid) | | (145,000) | | - |
| **Cash flow provided from financing activities** | | 657,545 | | 606,000 |
| **Cash flow used in investing activities** | | - | | - |
| **Foreign exchange on holding foreign currency** | | - | | 32 |
| **Net increase (decrease) in cash and cash equivalents** | | (103,800) | | (101,545) |
| **Cash and cash equivalents, beginning of period** | | 1,467,081 | | 139,332.00 |
| **Cash and cash equivalents, end of period** | $ | 1,363,281 | $ | 37,787 |

*The accompanying notes are an integral part of these unaudited interim condensed consolidated 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, British Columbia, V6M 4E1, Canada.

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

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations in the foreseeable future. Realization values may be substantially different from carrying values as shown and these unaudited interim condensed consolidated 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 February 28, 2014 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 February 28, 2014, the Company had not yet achieved profitable operations, has accumulated losses of $12,105,850 (August 31, 2013 - $11,262,412) 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 unaudited interim condensed consolidated 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 unaudited interim condensed consolidated financial statements.

## 3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

### 3.1 Statement of compliance

These unaudited interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited interim condensed consolidated financial statements were authorized by the Board of Directors of the Company on April 30, 2014.

### 3.2 Basis of presentation

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's August 31, 2013 annual financial statements.

### 3.3 Functional currency

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar.

### 3.4 Significant accounting estimates and judgments

The preparation of these interim condensed consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The interim condensed consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the interim condensed consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

Management has determined that, other than the going concern assumption as discussed in note 2, there are no significant assumptions about the future and other sources of judgments and estimates that management has made at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Standards and amendments effective in the current year**

The IASB issued new standards and amendments effective for, and adopted in the current year. The adoption of the following accounting policies had no impact on the Company's financial statements:

"Joint Arrangements" (IFRS 11) establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes the current IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers".

"Disclosure of Interests in Other Entities" (IFRS 12) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

"Fair Value Measurements" (IFRS 13) defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based fair value or disclosures about those measurements), except in specified circumstances.

**Adoption of new and revised standards and interpretations**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

**IFRS 9 - Financial Instruments, Recognition and Measurement**

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the impact of IFRS 9 on its results of operations.

## 5. 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 six months period ended February 28, 2014.

## 5. CAPITAL RISK MANAGEMENT (continued)

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, reserves, and deficit, which as at February 28, 2014 totaled $1,253,204 (August 31, 2013 - $1,121,224). 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.

## 6. 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 February 28, 2014, 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.

## 6. FINANCIAL INSTRUMENTS (continued)

### 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 February 28, 2014, the Company had current assets of $1,445,879 (August 31, 2013 - $1,534,273) to settle current liabilities of $224,122 (August 31, 2013 - $455,544) resulting in working capital of $1,221,757 (August 31, 2013 – working capital $1,078,729). All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

### 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.

## 7. MINERAL PROPERTIES

### Topacio

Pursuant to a Definitive Agreement ("Topacio Agreement") dated April 30, 2010, and as amended, the Company had agreed to acquire the Topacio property located in the South Atlantic Autonomous Region, Republic of Nicaragua. The Company had the right to earn a 100% undivided interest, subject to a 3% Net Smelter Royalty, in Topacio following the payment of US$3,000,000 on or before October 31, 2012 and making 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 Topacio Agreement, whereby a three year extension of the Topacio Agreement was granted in consideration for increasing its bi-annual payments from US$60,000 to US$90,000, effective May 1, 2013, (May 1, 2013: US$90,000 paid) and issuing 420,000 common shares (issued). The final balloon option payment of US$3,000,000 is due on or before April 30, 2016.

Given the challenging market conditions in the resource sector, the Company re-evaluated the economics of its proposed acquisition of the Topacio Concession and terminated the original agreement. Notwithstanding that, however, the Company continues to negotiate with the vendor for newly agreeable terms.

### El Santo

The Company holds a 100% interest in the 2,088.8 ha El Santo concession located in central Nicaragua.

(Expressed in Canadian Dollars)

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Computer Equipment & Software | Furnishings | Vehicles | Construction in process | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **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** |
| **As at February 28, 2014** | **4,299** | **35,567** | **22,979** | **4,056** | **66,901** |
| **Accumulated Amortization** | | | | | |
| **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** |
| Additions | - | 9,176 | 1,872 | - | 11,048 |
| **As at February 28, 2014** | **4,299** | **22,342** | **8,813** | **-** | **35,454** |
| **Net Book Value** | | | | | |
| **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** |
| **As at February 28, 2014** | **-** | **13,225** | **14,166** | **4,056** | **31,447** |

(Expressed in Canadian Dollars)

## 9. SHARE CAPITAL

**(a) Authorized**

Unlimited number of common shares without par value.

**(b) Issued**

| | Number of Shares | | Stated Value |
|---|---|---|---|
| **COMMON SHARES** | | | |
| **Balance, August 31, 2012** | **44,283,675** | **$** | **6,885,784** |
| Shares issued for property | 420,000 | | 63,000 |
| Shares issued for bonus shares for promissory note private placement | 890,060 | | 115,708 |
| **Balance, February 28, 2013** | **45,593,735** | **$** | **7,064,492** |
| Shares issued on private placement, net of share issue costs | 30,550,000 | | 3,055,000 |
| Shares issued costs | 0 | | (248,726) |
| Fair market value of finder's warrants issued | 0 | | (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** | **$** | **10,208,226** |
| Shares issued on private placement, net of share issue costs | 19,000,000 | | 932,545 |
| **Balance, February 28, 2014** | **98,452,188** | **$** | **11,140,771** |

Period ended February 28, 2014

On October 9, 2012, the Company issued 420,000 common shares, with a grant date fair value of $63,000in respect of the modification to the Topacio Agreement.

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 the 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. $25,000 (August 31, 2013 - $170,000) in promissory notes remain owing at February 28, 2014.

## 9. SHARE CAPITAL (continued)

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

On March 22, 2013, the Company completed a non-brokered private placement whereby 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. 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.

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. Finder's fees in the amount of $17,500 have been recorded as owing in connection with the private placement.

## 10. 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.

(Expressed in Canadian Dollars)

## 10. SHARE BASED PAYMENTS (continued)

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

| | | February 28, 2014 | | | August 31, 2013 | |
|---|---|---|---|---|---|---|
| | | **Weighted Average Exercise Price** | **Number of Options** | | **Weighted Average Exercise Price** | **Number of Options** |
| Outstanding at beginning of period | $ | 0.13 | 7,325,000 | $ | 0.19 | 3,725,000 |
| Granted | | - | - | | 0.13 | 5,225,000 |
| Exercised | | - | - | | 0.10 | (100,000) |
| Expired | | - | - | | 0.25 | (1,525,000) |
| Forfeited | | 0.13 | (1,375,000) | | | |
| Forfeited | | 0.10 | (1,151,000) | | | |
| Forfeited | | 0.25 | (699,000) | | | |
| Granted | | 0.05 | 4,350,000 | | | |
| **Outstanding at end of the period** | **$** | **0.09** | **8,450,000** | **$** | **0.13** | **7,325,000** |
| **Exercisable at end of period** | **$** | **0.09** | **5,425,000** | **$** | **0.14** | **4,587,500** |

The following table provides additional information about outstanding stock options at February 28, 2014:

| | **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 | 350,000 | 3.40 | $ | 0.10 | 350,000 | $ | 0.10 |
| $ 0.10 | 350,000 | 3.70 | $ | 0.10 | 350,000 | $ | 0.10 |
| $ 0.13 | 3,400,000 | 4.10 | $ | 0.13 | 2,550,000 | $ | 0.13 |
| $ 0.05 | 4,350,000 | 4.99 | $ | 0.05 | 2,175,000 | $ | 0.05 |
| **$ 0.05 - $ 0.13** | **8,450,000** | **4.52** | **$** | **0.09** | **5,425,000** | **$** | **0.09** |

(Expressed in Canadian Dollars)

## 10. 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 at the corresponding periods:

| Grant Date | Expiry Date | Share Price at Grant Date | Exercise Price | Risk-Free Interest Rate | Expected Life (Years) | Volatility Factor | Dividend Yield |
|---|---|---|---|---|---|---|---|
| April 3, 2013 | April 3, 2018 | $0.13 | $0.13 | 1.26% | 5 | 100% | Nil |
| August 7, 2013 | August 7, 2018 | $0.11 | $0.13 | 1.77% | 5 | 100% | Nil |
| February 21, 2014 | February 21, 2019 | $0.035 | $0.05 | 1.69% | 5 | 100% | Nil |

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.

On February 21, 2014 the Company granted 4,350,000 stock options to directors, officers and employee to purchase up to 4,350,000 common shares of the Company for a period of five years at an exercise price of $0.05 per share. The options vest 50% on the date of grant and 50% within 360 days from the grant date. The Company recorded a charge of $70,510 in stock-based compensation. A weighted average fair value of $0.032 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 three and six months period ending February 28, 2014 as part of stock-based compensation were $55,699 and $163,303 (2013 - $3,400 and $45,400).

(Expressed in Canadian Dollars)

## 11. WARRANTS

| | February 28, 2014 | | | August 31, 2013 | | |
|---|---|---|---|---|---|---|
| | | Weighted Average Exercise Price | Number of Warrants | | Weighted Average Exercise Price | Number of Warrants |
| Outstanding at beginning of year | $ | 0.12 | 32,670,420 | $ | 0.25 | 770,416 |
| Granted | | 0.12 | - | | 0.12 | 32,670,420 |
| Expired | | 0.25 | - | | 0.25 | (770,416) |
| **Outstanding at end of the period** | **$** | **0.12** | **32,670,420** | **$** | **0.12** | **32,670,420** |

The following table summarizes the weighted average assumptions used with the Black-Scholes valuation model for the determination of the fair market value of the warrants issued at the corresponding periods:

| Grant Date | Expiry Date | Share Price at Grant Date | Exercise Price | Risk-Free Interest Rate | Expected Life (Years) | Volatility Factor | Dividend Yield |
|---|---|---|---|---|---|---|---|
| 21-Mar-13 | 21-Mar-15 | $0.16 | $0.12 | 0.98% | 2 | 141% | Nil |
| 22-Mar-13 | 22-Mar-15 | $0.15 | $0.12 | 0.99% | 2 | 141% | Nil |

| Exercise price | Issue date | Expiry date | Balance August 31, 2013 | Expired | Exercised | Balance February 28, 2014 |
|---|---|---|---|---|---|---|
| $ 0.12 | March 21, 2013 | March 21, 2015 | 26,000,000 | - | - | 26,000,000 |
| $ 0.12 | March 22, 2013 | March 22, 2015 | 6,670,420 | - | - | 6,670,420 |
| **Total** | | | **32,670,420** | **-** | **-** | **32,670,420** |

## 12. PREPAID EXPENSES

| | February 28, 2014 | | August 31, 2013 | |
|---|---|---|---|---|
| Prepaid insurance | $ | - | $ | 8,499 |
| Prepaid interest on promissory notes | | - | | 9,930 |
| Other | | 1,238 | | 6,657 |
| **Total prepaid expenses** | **$** | **1,238** | **$** | **25,086** |

(Expressed in Canadian Dollars)

## 13. 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

| | February 28, 2014 | August 31, 2013 |
|---|---|---|
| **Property, Plant and Equipment** | | |
| Canada | $ - | $ - |
| Nicaragua | 31,447 | 42,495 |
| **Total** | **$ 31,447** | **$ 42,495** |

## 14. 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:

| | Three months ended February 28, | | Six months ended February 28, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Management fees | $ - | 18,750 | $ - | 58,150 |
| Consulting fees | 72,216 | 83,084 | 146,128 | 160,884 |
| Rent | 5,531 | - | 10,739 | - |
| **Total** | **$ 77,747** | **101,834** | **$ 156,867** | **219,034** |

During the three and six months period ended February 28, 2014, aggregate remuneration of $72,216 and $146,128 (2013 – $101,834 and $219,034) was paid or accrued to are payable to company with a former common officer, a company with a common chief executive officer and a company with a common director. During the three and six months period ended February 28, 2014 share-based payments of $50,836 and $158,440 (2013 – $3,400 and $45,400) were granted to former chief financial officer, current chief executive officer and chief financial officer and current directors.

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 February 28, 2014 nothing remains as promissory note payable to related parties.

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.

(Expressed in Canadian Dollars)

## 15. EXPLORATION AND EVALUATION EXPENDITURES

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

| | February 28, 2014 | February 28, 2013 | Cumulative to date |
|---|---|---|---|
| **Topacio Property** | | | |
| Acquisition expenditures | $ - | $ - | $ 517,582 |
| Exploration expenditures: | | | |
| Project Staff Salaries and Benefits | 69,051 | 121,735 | 1,962,777 |
| Project management | 22,439 | 213,123 | 717,089 |
| Travel expenses | 1,954 | 3,445 | 55,543 |
| Laboratory Analysis Costs -Minerals Sampling | 217 | 383 | 232,071 |
| Supplies Expense - Fuel | 863 | 1,521 | 24,531 |
| Authorizations, permits, licenses | 5,311 | 9,363 | 150,965 |
| **Exploration and evaluation expenditures** | **$ 99,835** | **$ 349,570** | **$ 3,660,558** |

## 16. COMMITMENTS

On-going commitments for capital resources relate largely to the maintenance of 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..

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

| | |
|---|---|
| 2014 | 3,792 |
| | **$ 3,792** |