CASSIUS VENTURES LTD.

Consolidated Financial Statements

Years Ended October 31, 2012 and 2011

(Expressed in Canadian dollars)

SATURNAGROUP
CHARTERED ACCOUNTANTS LLP

1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Cassius Ventures Ltd.

We have audited the consolidated financial statements of Cassius Ventures Ltd., which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011, and November 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years ended October 31, 2012 and 2011, and the related notes comprising 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.

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

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

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

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Cassius Ventures Ltd. as at October 31, 2012, October 31, 2011, and November 1, 2010 and its financial performance and its cash flows for the years ended October 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Cassius Ventures Ltd. to continue as a going concern.

Saturna Group LLP

Saturna Group Chartered Accountants LLP

Vancouver, Canada

February 25, 2013

CASSIUS VENTURES LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	October 31, 2012	October 31, 2011 (Note 5)	November 1, 2010 (Note 5)
Assets			
Current assets			
Cash and cash equivalents	**$ 340,023**	$ 1,420,752	$ 486,719
Receivables	**39,739**	52,562	5,731
Prepaid expenses	**11,065**	48,744	-
Due from related parties (Note 13)	**45,486**	-	-
Total Current Assets	**436,313**	1,522,058	492,450
Restricted cash (Note 3)	**35,818**	17,250	-
Equipment (Note 8)	**36,055**	37,804	-
Mineral properties (Note 9)	**4,802,010**	2,674,409	142,514
TOTAL ASSETS	**$ 5,310,196**	$ 4,251,521	$ 634,964
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 316,827**	$ 71,800	$ 58,557
Due to related parties (Note 13)	**101,397**	5,269	3,360
Total Current Liabilities	**418,224**	77,069	61,917
Deferred income tax payable (Note 14)	**515,214**	479,956	-
TOTAL LIABILITIES	**933,438**	557,025	61,917
Shareholders' equity			
Share capital (Note 10)	**5,668,005**	4,689,795	788,036
Contributed surplus (Note 10)	**260,349**	133,157	6,603
Deficit	**(1,551,596)**	(1,128,456)	(221,592)
Total Shareholders' Equity	**4,376,758**	3,694,496	573,047
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 5,310,196**	$ 4,251,521	$ 634,964

Nature of operations and continuation of business (Note 1)
Commitment (Note 15)
Subsequent events (Note 19)

Approved by the Board:

"Steven Dean" Director

"Robert Atkinson" Director

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

CASSIUS VENTURES LTD.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Years ended October 31, 2012 and 2011

		2012		2011 (Note 5)
Expenses				
Consulting	$	76,500	$	199,037
Foreign exchange loss (gain)		45,455		(24,369)
Investor relations		25,934		-
Office and general (Note 13)		96,773		38,527
Professional fees (Note 13)		62,969		63,837
Share-based payments (Note 13)		113,325		108,915
Transfer agent and regulatory		19,113		41,871
Termination payments (Note 9)		5,420		76,825
Write down of mineral properties (Note 9)		-		404,850
Net loss from operations		(445,489)		(909,493)
Other income				
Interest and other income		33,052		2,629
Net loss before income taxes		(412,437)		(906,864)
Deferred tax expense (Note 14)		(10,703)		-
Net loss and comprehensive loss for the year	$	(423,140)	$	(906,864)
Loss per common share - basic and diluted	$	(0.012)	$	(0.045)
Weighted average number of common shares outstanding		34,734,272		20,184,610

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

CASSIUS VENTURES LTD.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Years Ended October 31, 2012 and 2011

	Share capital Number of shares	Share capital Amount	Contributed Surplus	Deficit	Total equity
Balance - November 1, 2011	**31,248,480**	**$ 4,689,795**	**$ 133,157**	**$ (1,128,456)**	**$ 3,694,496**
Private placement - June 28 2012	9,700,000	970,000	-	-	970,000
Share issue costs	-	(11,790)	-	-	(11,790)
Warrants exercised (Note 12)	200,000	20,000	-	-	20,000
Share-based payments (Note 11)	-	-	127,192	-	127,192
Net loss for the year	-	-	-	(423,140)	(423,140)
Balance - October 31, 2012	**41,148,480**	**$ 5,668,005**	**$ 260,349**	**$ (1,551,596)**	**$ 4,376,758**

	Share capital Number of shares	Share capital Amount	Contributed Surplus	Deficit	Total equity
Balance - October 31, 2010	**9,666,880**	**$ 788,036**	**$ 6,603**	**$ (221,592)**	**$ 573,047**
Private placement - January 2011 (Note 10)	4,000,000	300,000	-	-	300,000
Private placement - June 2011 (Note 10)	10,000,000	2,500,000	-	-	2,500,000
Issued for mineral property	100,000	17,000	-	-	17,000
Issued under share exchange agreement (Notes 6 and 9)	6,500,000	1,040,000	-	-	1,040,000
Issued as finders fees (Notes 6 and 9)	806,600	160,700	-	-	160,700
Share issue costs	-	(133,441)	-	-	(133,441)
Warrants exercised (Note 12)	175,000	17,500	-	-	17,500
Share-based payments (Note 11)	-	-	126,554	-	126,554
Net loss for the year	-	-	-	(906,864)	(906,864)
Balance - October 31, 2011	**31,248,480**	**$ 4,689,795**	**$ 133,157**	**$ (1,128,456)**	**$ 3,694,496**

CASSIUS VENTURES LTD.
Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)
Years Ended October 31, 2012 and 2011

	2012	2011
Operating activities		
Net loss for the year	$ (423,140)	(906,864)
Items not involving cash:		
Deferred income tax expense	10,703	-
Share-based payments	113,325	108,915
Non-cash foreign exchange gain	630	678
Write down of mineral properties	-	404,850
Net changes in non-cash working capital balances:		
Prepaid expenses	42,692	(47,834)
Due from related parties	(45,486)	-
Receivables	12,823	(46,831)
Accounts payable and accrued liabilities	(55,396)	(582,601)
Due to related parties	58,824	1,909
Net cash used in operating activities	(285,025)	(1,067,778)
Investing activities		
Mineral property acquisition costs	(4,148)	-
Restricted cash	(18,568)	(17,250)
Purchase of equipment	(10,551)	(40,562)
Mineral property expenditures	(1,740,647)	(785,136)
Net cash used in investing activities	(1,773,914)	(842,948)
Financing activities		
Private placement, net of share issue costs	958,210	2,827,259
Exercise of warrants	20,000	17,500
Net cash provided in financing activities	978,210	2,844,759
Change in cash and cash equivalents during the year	(1,080,729)	934,033
Cash and cash equivalents, beginning of year	1,420,752	486,719
Cash and cash equivalents, end of year	$ 340,023	$ 1,420,752
Cash and cash equivalents are comprised of the following:		
Cash	$ 340,023	$ 420,752
Term deposits	-	1,000,000
	$ 340,023	$ 1,420,752
Supplemental cash flow information		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Non-cash investing and financing activities		
Fair value of options capitalized in mineral properties	$ 13,867	$ 17,639
Equipment amortization capitalized in mineral properties	$ 12,300	$ 2,758
Shares issued for mineral property	$ -	$ 17,000
Mineral property expenditures in accounts payable	$ 321,003	$ 87,265
Share issue costs	$ -	$ 87,900
Shares issued under share exchange agreement (Note 6)	$ -	$ 1,040,000

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

1. Nature of Operations and Continuance of Business

Cassius Ventures Ltd. (the "Company") is an exploration stage company focused on the exploration of its flagship properties located in Nicaragua. The Company was incorporated under the Business Corporations Act (British Columbia) on February 23, 2007. The Company maintains its head office at 595 Burrard Street, Suite 3083, Vancouver, British Columbia. The Company's registered and records office is located at 625 Howe Street, Suite 700, Vancouver, British Columbia. Its common shares are traded on the TSX Venture exchange under the symbol "CZ".

The Company owns 100% of the issued and outstanding shares of Fortress de Nicaragua S.A. ("Fortress"), a private Nicaraguan company, which is the legal and beneficial owner of sixteen exploration concessions with a total area of approximately 137,000 hectares in Nicaragua. On January 30, 2012, the Company completed the acquisition, through Fortress, of the issued and outstanding shares of Nueva Segovia S.A., a private Nicaraguan Company which holds the El Zúngano concession in northern Nicaragua.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has yet to generate any revenues from operations and as at October 31, 2012, had an accumulated deficit of $1,551,596 and a working capital balance of $18,089. These conditions, along with other factors indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company's ability to continue operations in the normal course of business is dependent on several factors, including the ability to secure additional financing. In addition, the recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production, all of which are uncertain.

Although management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

The consolidated financial statements do not include any additional adjustments to the recoverability and classification of certain recorded asset amounts, and changes to statements of comprehensive loss that might be necessary if the Company was unable to continue as a going concern.

2. Basis of Presentation and Adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

2. Basis of Presentation and Adoption of IFRS (continued)

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition election provided for in IFRS 1 and disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS consolidated statement of financial position at November 1, 2010 ("the transition date") and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported statement of position, equity, comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements at the transition date as well as at October 31, 2011.

The accounting policies applied in these consolidated financial statements are presented in note 3 and are based on IFRS effective for the year ending October 31, 2012, as issued and outstanding as of February 25, 2013, the date the Board of Directors approved the statements.

3. Summary of Significant Accounting Policies

The significant accounting policies used to prepare these consolidated financial statements are outlined as follows:

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries: Fortress de Nicaragua S.A. and Nueva Segovia Mining S.A. All material intercompany transactions and balances have been eliminated on consolidation.

b) Mineral properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition costs are capitalized and deferred until such time as the property is put into production or the property is disposed of, either through sale or abandonment, or becomes impaired. If a property is put into production the cost of acquisition will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property. If a property is abandoned, the acquisition costs will be written off to operations. Recorded costs of mineral properties are not intended to reflect present or future values of the properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts.

Although the Company has taken steps that it considers adequate to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Title to mineral properties in foreign jurisdictions is subject to uncertainty and consequently, such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

c) Mineral property exploration expenditures

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation and classified as a component of mineral properties. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

3. Summary of Significant Accounting Policies (continued)

d) Impairment of mineral properties

The Company regularly reviews the recoverability of the carrying value of each mineral property. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

e) Asset retirement obligations

Asset retirement obligations will be recognized for estimated obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made with the corresponding asset retirement cost recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value. The Company had no asset retirement obligations at October 31, 2012 and 2011.

f) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value to be cash equivalents.

g) Restricted cash

Restricted cash is comprised of $5,750 (2011: $17,250) held in a term deposit held as security against the Company's credit card, as well as $30,068 (2011: $Nil) held in a term deposit in a major Nicaraguan bank as a security deposit relating to the importation of a drill used in the Company's 2011/2012 exploration program.

h) Translation of foreign currencies

i. Functional and presentation currency: Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars which is the functional currency of Cassius Ventures Ltd, along with its wholly owned subsidiaries Fortress de Nicaragua S.A. and Nueva Segovia Mining S.A.

ii. Transactions and balances: Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recorded in the consolidated statement of loss and comprehensive loss.

3. Summary of Significant Accounting Policies (continued)

i) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Diluted loss per share has not been presented separately as the effect of common shares issuable on the exercise of stock options and share purchase warrants would be anti-dilutive. The Company had 1,685,000 stock options and 8,625,000 share purchase warrants outstanding at October 31, 2012.

j) Equipment

Property and equipment are carried at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Amortization is calculated at the following annual rates:

Computer equipment	straight-line - 30%
Office furniture and equipment	straight-line - 20%

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

k) Share issuance costs

Share issuance costs incurred on the issue of the Company's shares are charged directly to share capital.

l) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus.

3. Summary of Significant Accounting Policies (continued)

m) Current and deferred taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual area of estimates includes the impairment of mineral properties, asset retirement obligations, assumptions used in the accounting for share-based payments, amortization and useful life of long lived assets, fair value of financial instruments and valuation of deferred tax benefits and valuation allowances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the notes to the financial statements where applicable.

o) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. Summary of Significant Accounting Policies (continued)

o) Financial instruments

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Held for trading: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. The Company has designated its cash and cash equivalents as held for trading and are measured at fair value at the end of each period with any resulting gains or losses recognized in profit or loss.
- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivables and amounts due from related parties, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities and amounts due to related parties. Accounts payable and amounts due to related parties are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Financial liabilities are classified as current liabilities as payment is due within twelve months.

p) Reclassifications

The comparative figures have been reclassified where necessary to conform to the presentation used in the current year.

4. Accounting Standards Issued But Not Yet Applied

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 13, *Fair Value Measurement*, amended IAS 28, *Investments in Associates and Joint Ventures, and IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 (with the exception of IFRS 9 which will be effective for annual periods beginning on or after January 1, 2015) with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 - Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

4. Accounting Standards Issued But Not Yet Applied (continued)

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 28 – Investments in Associate and Joint Ventures

IAS 28 revises the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associated joint ventures.

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

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

5. Transition to IFRS

As stated in note 2, these are the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies, in accordance with IFRS, set out in note 3 have been applied in preparing the consolidated financial statements for the year ended October 31, 2012, the comparative information presented in these consolidated financial statements for the year ended October 31, 2011 and in the preparation of an opening IFRS balance sheet at November 1, 2010 (the Company's date of transition). In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS with respect to the financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

a) Initial elections upon adoption

Fair value as deemed cost

The Company may elect among two options when measuring the value of its assets under IFRS. It may elect, on an asset by asset basis, to use either historical cost as measured under retrospective application of IFRS or fair value of an assets at the opening balance sheet date. The Company has elected to use historical cost for its assets. There is no impact on the financial statements due to this election.

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, "Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to November 1, 2010.

a) Initial elections upon adoption (continued)

Business combinations

The Company elected under IFRS 1 not to apply IFRS 3, "Business Combinations" retrospectively to any business combinations that may have occurred prior to its transition date and such business combinations have not been restated.

The Company has applied the following mandatory exception:

Estimates

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used at the transition date are consistent with estimates made at the same date under Canadian GAAP.

b) Reconciliations of Canadian GAAP to IFRS

The adoption of IFRS had no impact on the financial position, statements of loss and comprehensive loss or net cash flows of the Company as at the transition date of November 1, 2010. For the year ended October 31, 2011, the Company had the following reconciling items:

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

5. Transition to IFRS (continued)

b) Reconciliations of Canadian GAAP to IFRS

(i) - Deferred taxes

Under IFRS, deferred income taxes are not recognized on exploration costs capitalized based in Nicaragua as the difference is considered to be a permanent difference for tax purposes, whereas under Canadian GAAP, such differences were considered temporary. This change in accounting decreased mineral properties and deferred income tax liabilities at October 31, 2011 by $196,649 (November 1, 2010 - $Nil). This amendment did not have an effect on the statement of loss and comprehensive loss, or the statement of cash flows.

(ii) – Share-based payments

Under IFRS, the fair value of options granted are accrued over the vesting period using the graded method of amortization, whereas under Canadian GAAP, the straight-line method of amortization is used. As a result of this change in accounting, as at October 31, 2011, contributed surplus increased by $60,905, share-based payment expense increased by $52,416 and mineral properties increased by $8,489. The amendment did not have an effect on the financial statements at November 1, 2010.

Statement of Financial Position							**October 31, 2011**
	Note		**Canadian GAAP**		**Effect of transition to IFRS**		**IFRS**
Assets							
Current assets							
Cash and cash equivalents		$	1,420,752	$	-	$	1,420,752
Receivables			52,562		-		52,562
Prepaid expenses and deposits			48,744		-		48,744
Total Current Assets			1,522,058		-		1,522,058
Restricted cash			17,250		-		17,250
Equipment			37,804		-		37,804
Mineral properties	(i), (ii)		2,862,569		(188,160)		2,674,409
Total assets		$	4,439,681	$	(188,160)	$	4,251,521
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities		$	71,800	$	-	$	71,800
Due to related parties			5,269		-		5,269
Total Current Liabilities			77,069		-		77,069
Deferred taxes	(i)		676,605		(196,649)		479,956
Total liabilities			753,674		(196,649)		557,025
Shareholders' equity							
Share capital			4,689,795		-		4,689,795
Contributed surplus	(ii)		72,252		60,905		133,157
Deficit	(ii)		(1,076,040)		(52,416)		(1,128,456)
Total Shareholders' Equity			3,686,007		8,489		3,694,496
Total liabilities and equity		$	4,439,681	$	(188,160)	$	4,251,521

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

5. Transition to IFRS (continued)

b) Reconciliations of Canadian GAAP to IFRS (continued)

Statement of Loss and Comprehensive Loss		Year ended October 31, 2011		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses				
Consulting and management		199,037	-	199,037
Foreign exchange gain		(24,369)	-	(24,369)
Office and general		38,527	-	38,527
Professional fees		63,837	-	63,837
Share-based payments	(ii)	56,499	52,416	108,915
Transfer agent and regulatory		41,871	-	41,871
Termination payments		76,825	-	76,825
Write down of mineral properties		404,850	-	404,850
Loss from operations		(857,077)	(52,416)	(909,493)
Other income				
Interest income		2,629	-	2,629
Net loss and comprehensive loss for the year		(854,448)	(52,416)	(906,864)

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

6. Acquisition of Fortress de Nicaragua, S.A. ("Fortress")

On May 3, 2011, the Company acquired 100% of the issued and outstanding shares of Fortress, a private company incorporated in Nicaragua, which is the legal and beneficial owner of sixteen exploration concessions located in Nicaragua (the "Nicaraguan Gold Properties"). Concurrent with the closing of the acquisition, the Company completed a non-brokered private placement of 10,000,000 units at a price of $0.25 per unit for gross proceeds of $2,500,000 (refer to Note 10).

Under the terms of the acquisition, the Company acquired all of the issued and outstanding shares of Fortress in exchange for 6,500,000 common shares of the Company with a fair value of $1,040,000, plus reimbursement for certain expenses and assumption of certain property maintenance fees not to exceed US$650,000.

Pursuant to the transaction, the Company paid transaction costs of $28,143 in professional fees, which were expensed in the consolidated statement of loss, comprehensive loss and deficit for the year ended October 31, 2011. The Company also issued 455,000 common shares as finder's fees with a fair value of $72,800, which were expensed as consulting fees on the statement of loss, comprehensive loss and deficit for the year ended October 31, 2011.

The transaction has been accounted for as a business combination using the purchase method. The allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

Prepaid expenses	$	911
Mineral properties		2,026,946
Accounts payable		(508,578)
Deferred income tax liability		(479,279)
	$	1,040,000

The consideration is determined as follows:

Share consideration	$	1,040,000

The Nicaraguan Gold Properties are subject to royalty agreements between Fortress and JAT Metconsult Ltd. ("JAT"), whose owner is an officer and director of the Company; as well as Sirocco Advisory Services Ltd. ("Sirocco"), whose owner is a director of the Company. Under the royalty agreements, JAT and Sirocco are each entitled to a 0.75% net smelter returns ("NSR") royalty, increasing to 1% in the event gold production exceeds 200,000 ounces.

There are also two other royalty agreements between Fortress and various other parties; entitling these parties up to 1% of NSR royalties should the Nicaraguan Gold Properties enter into production.

The Company is also required to pay concession rents to the Ministry of Mines and Energy in Nicaragua twice annually to keep claims in good standing. The costs to maintain concessions increase every 12 calendar months.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

7. Acquisition of Nueva Segovia Mining S.A. ("Nueva Segovia")

On January 30, 2012, Fortress completed an acquisition of the issued and outstanding shares of Nueva Segovia, a private company incorporated in Nicaragua, from Infinito International Holdings Corp ("Infinito"). Nueva Segovia is the legal and beneficial owner of a concession located in Nicaragua known as El Zúngano, of which the Company wishes to conduct exploration activities.

Under the terms of the agreement, Fortress acquired all the issued and outstanding shares of Nueva Segovia in exchange for $5,000.

Pursuant to the transaction, the Company paid transaction costs of $9,371 in professional fees, which have been expensed in the consolidated statement of loss, comprehensive loss and deficit.

The transaction has been accounted for as a business combination using the purchase method. The allocation of the purchase price fair value of the assets acquired and liabilities assumed is as follows:

Cash	$	852
Deposit		5,014
Mineral properties		86,851
Accounts payable		(63,162)
Deferred income tax liability		(24,555)
	$	5,000

The El Zúngano concession is subject to an agreement between Nueva Segovia and the owner of the concession, entitling the owner to payments of US $100,000 due on January 5, 2013 and US $495,000 due on January 5, 2014. The agreement also entitles the owner to a 1.5% royalty from sales of metals up to a maximum of US $10,000,000 should the concession enter into production. Nueva Segovia may terminate the agreement upon 30 days written notice providing concession rent payments are made up to the termination date. As at the date of this report, the Company has not made the US $100,000 payment which was due on January 5, 2012. In the event the Company is unable to come to terms on an amended agreement, the company may choose to return the concession to the former landowner.

The Company is also required to pay concession rents to the Ministry of Mines and Energy in Nicaragua twice annually to keep the El Zúngano concession in good standing.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

8. Equipment

		Equipment
At November 1, 2010		
Cost	$	-
Accumulated depreciation		-
Net book Value	**$**	**-**
Year ended October 31, 2011		
At November 1, 2010	$	-
Additions		40,562
Depreciation for the year		(2,758)
Closing net book value	**$**	**37,804**
At October 31, 2011		
Cost	$	40,562
Accumulated depreciation		(2,758)
Net book Value	**$**	**37,804**
Year ended October 31, 2012		
At November 1, 2011	$	37,804
Additions		10,551
Depreciation for the year		(12,300)
Closing net book value	**$**	**36,055**
At October 31, 2012		
Cost	$	51,113
Accumulated depreciation		(15,058)
Net book Value	**$**	**36,055**

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

9. Mineral Properties

	Carrot River Property	Head Bay Property	Nueva Segovia Mining S.A.	Fortress de Nicaragua S.A.	Total
Balance, October 31, 2010	$ 142,514	$ -	$ -	$ -	**$ 142,514**
Acquisition costs	-	29,000	-	2,026,946	2,055,946
Deferred exploration expenditures					
Drilling and fieldwork costs	228,336	5,000	-	425,916	659,252
Claims/permitting	-	-	-	118,336	118,336
Assays				46,102	46,102
Other	-	-	-	57,109	57,109
Total additions in the period	228,336	34,000	-	2,674,409	2,936,745
Write down of mineral properties	(370,850)	(34,000)	-	-	(404,850)
Balance October 31, 2011	**-**	**-**	**-**	**2,674,409**	**2,674,409**
Acquisition costs	-	-	86,837	-	**86,837**
Deferred exploration expenditures					
Drilling and fieldwork costs	-	-	-	1,362,238	**1,362,238**
Assays	-	-	-	235,180	**235,180**
Claims/permitting	-	-	17,867	400,167	**418,034**
Other	-	-	-	25,312	**25,312**
Total additions in the period	**-**	**-**	**104,704**	**2,022,897**	**2,127,601**
Balance October 31, 2012	**$ -**	**$ -**	**$ 104,704**	**$ 4,697,306**	**$ 4,802,010**

Carrot River Property

On March 3, 2010, the Company entered into an option agreement with QMC Quantum Minerals Corp. ("QMC") pursuant to which the Company acquired an option to earn a 60% undivided interest in the Carrot River Property, located in northern Manitoba ("Carrot River Option Agreement"). The Property is comprised of 15 mining claims totalling 3,073 hectares and lies within the northern part of the Archean Superior Province and straddles the westerly extension of the Oxford-Knee Lakes greenstone belt. Under the terms of the Agreement, the Company was committed to the following terms:

	Cash Payment $	Common Shares	Exploration Expenditures $
Upon signing of agreement (issued and paid)	25,000	200,000	–
On or before March 3, 2011	50,000 (optional)	300,000 (optional)	250,000 (optional)
On or before March 3, 2012	75,000 (optional)	400,000 (optional)	300,000 (optional)
On or before March 3, 2013	100,000 (optional)	500,000 (optional)	350,000 (optional)
On or before March 3, 2014	150,000 (optional)	600,000 (optional)	450,000 (optional)
	400,000	2,000,000	1,350,000

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

9. Mineral Properties (continued)

Carrot River Property (continued)

On August 4, 2011, the Company delivered notice of termination under the terms of the Carrot River Option Agreement to QMC. The effective date of termination was September 3, 2011. As part of the termination provisions of the agreement, the Company paid $76,825 to keep the claims in good standing for a period of twelve months after the termination date, as acknowledged by QMC under the Carrot River Option Agreement. The Company has no further obligations in respect of the Carrot River property. As at the effective termination date, the Company impaired $370,850 of previously capitalized costs relating to Carrot River.

Head Bay Property

On February 25, 2011, the Company entered into an Option Agreement with Johan Thom Shearer to acquire an undivided 100% interest in the Head Bay Property which is situated in the Alberni Mining Division of British Columbia. Under the terms of the Option Agreement, the Company was committed to the following terms:

	Cash Payment $	Common Shares
Upon signing of agreement (paid)	12,000	
On or before February 25, 2012	15,000	
On or before February 25, 2013	20,000	
On or before February 25, 2014	25,000	
On or before February 25, 2015	50,000	
Issue within 5 business days of Exchange Approval of Agreement	Nil	100,000 (issued)
	$122,000	100,000

On January 16, 2012, the Company delivered notice of termination under the terms of the Head Bay Option Agreement to Mr. Shearer. As part of the termination, the Company paid $5,420 of termination costs in full satisfaction of further obligations as acknowledged by Mr. Shearer under the Head Bay Option Agreement. The Company has no further obligations in respect of the Head Bay property. As at October 31, 2011, the Company wrote-off costs previously capitalized to the Head Bay Property of $34,000.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

10. Share Capital and Contributed Surplus

	Number of shares	Share Capital Amount	Contributed surplus
Balance, October 31, 2010	9,666,880	788,036	6,603
Private placement - January 2011	4,000,000	300,000	-
Private placement - June 2011	10,000,000	2,500,000	-
Issued for mineral property	100,000	17,000	-
Issued under share exchange agreement (Notes 6 and 9)	6,500,000	1,040,000	-
Issued as finders fees (Notes 6 and 9)	806,600	160,700	-
Share issue costs	-	(133,441)	-
Warrants exercised (Note 12)	175,000	17,500	-
Share-based payments recognized (Note 11)	-	-	126,554
Balance, October 31, 2011	**31,248,480**	**4,689,795**	**133,157**
Private placement - June 2012	9,700,000	970,000	-
Share issue costs	-	(11,790)	-
Warrants exercised (Note 12)	200,000	20,000	-
Share-based payments recognized (Note 11)	-	-	127,192
Balance, October 31, 2012	**41,148,480**	**5,668,005**	**260,349**

The Company has an unlimited number of common shares without par value authorized.

On January 10, 2011, the Company completed a non-brokered private placement of 4,000,000 units at a price of $0.075 per unit for proceeds of $300,000. Each unit consisted of one common share plus one share purchase warrant, with each share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of $0.10 per share for a period of two years.

On March 25, 2011, the Company issued 100,000 common shares with a fair value of $17,000 to acquire an interest in the Head Bay Property, as discussed in Note 9.

On June 3, 2011, the Company completed a non-brokered private placement comprising of 10,000,000 units, at a price of $0.25 per unit for gross proceeds of $2,500,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $0.45 per share for a period of 24 months. The warrants are subject to an “accelerated expiry provision” whereby, in the event that the volume weighted average closing price of the Company’s shares is equal to or exceeds $0.65 for a period of 15 consecutive trading days, the Company may give written notice to the warrant-holders that the warrants will expire on the 30th calendar day following the date of such notice. As part of the private placement, the Company issued 351,600 common shares with a fair value of $87,900 as finders’ fees.

On June 3, 2011, the Company issued 6,500,000 common shares with a fair value of $1,040,000 to acquire the issued and outstanding shares of Fortress, as discussed in note 6. In addition, the Company issued 455,000 common shares with a fair value of $72,800 as finders’ fees, which were expensed in the statement of loss and comprehensive loss.

On June 28, 2012, the Company completed a non-brokered private placement comprising 9,700,000 common shares, at a price of $0.10 per common share for proceeds of $970,000.
During the year ended October 31, 2012, 200,000 common shares were issued upon the exercise of share purchase warrants (2011: 175,000) at an exercise price of $0.10 per share, for proceeds of $20,000 (2011: $17,500).

10. Share Capital and Contributed Surplus (continued)

During the year ended October 31, 2012, $11,790 (2011: $45,541) of share issuance costs were incurred in conjunction with the above noted private placements.

Escrowed Shares

As at October 31, 2012, the Company had 600,000 (2011 – 1,200,000) common shares held in escrow. On January 28, 2013, 300,000 common shares were released from escrow. The remaining 300,000 shares held in escrow will be released on July 29, 2013.

11. Stock Options

The Company has established a stock option plan (the "Plan") for its directors, executive officers, employees and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company exercisable for a period of up to 5 years from the date of grant.

Within any 12 month period, the maximum number of common shares reserved for issuance to any individual cannot exceed 5% of the issued common shares, and the maximum number of common shares reserved for issuance to any insider cannot exceed 10% of the issued common shares. The aggregate number of common shares reserved for issuance to insiders cannot exceed 10% of the issued common shares. Within any 12 month period, the maximum number of options granted to any one consultant cannot exceed 2% of the issued common shares and the maximum number of options granted to all employees and consultants conducting investor relations activities cannot exceed 2% of the issued common shares.

The exercise price of an option granted under this plan shall not be less than the discounted market price provided that:

(i) if options are granted within 90 days of a distribution by a prospectus, the minimum exercise price of those options will be the greater of the discounted market price and the per share price paid by the public investors for shares acquired under the distribution;

(ii) the 90 day period begins on the date a final receipt is issued for the prospectus;

(iii) for unit offerings, the minimum option exercise price will be the 'base' (or imputed) price of the shares included in the unit; and

(iv) for all other financings, the minimum exercise price will be the average price paid by the public investors.

Subject to the discretion of the Board, the options granted to an optionee under this Plan shall fully vest on the date of grant of such options. In accordance with the policies of the TSXV, and subject to their approval to the contrary, options issued to consultants providing investor relations services must vest (and not otherwise be exercisable) in stages over a minimum of 12 months with no more than 25% of the options vesting in any 3 month period.

As at October 31, 2012 the Company has 1,685,000 stock options outstanding (2011: 1,435,000) under the Plan.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

11. Stock Options (continued)

A summary of the changes in stock options is as follows:

	Options		Weighted average exercise price
Options outstanding - October 31, 2010	-	$	-
Granted	1,435,000		0.21
Options outstanding - October 31, 2011	1,435,000	$	0.21
Granted	350,000		0.19
Forfeited	(100,000)		0.21
Options outstanding - October 31, 2012	**1,685,000**	**$**	**0.21**
Options exercisable - October 31, 2012	**1,510,000**	**$**	**0.21**

The weighted average grant date fair value of the options granted for the year ended October 31, 2012 is $0.12 (2011: $0.16).

The fair value of stock options vested during the year ended October 31, 2012 was $127,192 (2011 - $126,554), which was recorded in contributed surplus, of which $13,867 (2011: $17,639) was capitalized to mineral properties and $113,325 (2011: $108,915) was recorded as share-based payments.

The fair values for stock options granted during the year ended October 31, 2012 have been estimated using the Black-Scholes option pricing model assuming no expected dividends, and the following weighted average assumptions:

	Year ended October 31, 2012	**Year ended October 31, 2011**
Risk-free interest rate	1.57%	2.12%
Expected life	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

11. Stock Options (continued)

The following table summarizes information about the stock options outstanding at October 31, 2012:

	Options Outstanding		Options Exerciseable
Exercise price	Number	Weighted average remaining life (years)	Number
$ 0.17	250,000	4.4	125,000
$ 0.21	1,335,000	3.7	1,335,000
$ 0.25	100,000	4.5	50,000
	1,685,000	**3.7**	**1,510,000**

12. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number	Weighted average exercise price
Balance - October 31, 2010	1,500,000	$ 0.15
Issued	9,000,000	0.29
Exercised	(175,000)	0.10
Balance - October 31, 2011	**10,325,000**	**$ 0.28**
Exercised	(200,000)	0.10
Expired	(1,500,000)	0.15
Balance - October 31, 2012	**8,625,000**	**$ 0.30**

As at October 31, 2012, the following share purchase warrants were outstanding:

Outstanding	Exercise price	Expiry Date
3,625,000	$ 0.10	January 10, 2013
5,000,000	$ 0.45	June 3, 2013
8,625,000		

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

13. Related Party Transactions

a) Key Management Compensation

Key management includes the Company's directors, Chief Executive Officer, and Chief Financial Officer. Compensation awarded to key management is presented in the table below:

	Year ended October 31, 2012	Year ended October 31, 2011
Consulting fees	$ 72,000	$ 28,400
Share-based payments	85,605	90,396
	$ 157,605	$ 118,796

b) Payments for services by related parties

As disclosed in note 15, the Company is charged shared lease, overhead, and service costs by an affiliated company with a common director and officer. The Company is also charged for accounting and administrative services by another affiliated company with a common director and officer. Amounts incurred for these services are presented in the table below:

	Year ended October 31, 2012	Year ended October 31, 2011
Purchase of services:		
Professional fees	$ 19,225	$ -
Geological consulting fees	4,484	-
Office and general	43,614	21,317
	$ 67,323	$ 21,317

c) Services provided to related parties

During the year ended October 31, 2012, the Company earned income as a result of services provided to an affiliated company with common directors. For the year ended October 31, 2012, the Company earned income totalling $25,264 (2011: $Nil).

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Amounts due to related parties at October 31, 2012 amounted to $101,397 to directors and officers of the Company as well as companies controlled by directors and officers of the Company (October 31, 2011 - $5,269) and amounts due from related parties at October 31, 2012 amounted to $45,486 from a company controlled by directors of the Company (October 31, 2011 - $Nil). The amounts due to and from related parties are non-interest bearing, unsecured and due on demand.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

14. Income Taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	October 31, 2012	October 31, 2011
Loss before income taxes	$ (412,437)	$ (906,864)
Combined federal and provincial income tax rates	25.25%	26.83%
Expected income tax recovery	(104,140)	(243,312)
Increase (decrease) due to:		
Stock based compensation and other non-deductible expenses	28,753	58,760
Change in enacted tax rates	688	13,749
Difference in foreign tax rates	3,577	(1,057)
Foreign exchange	12,953	(15,965)
Tax benefit of losses not recognized	68,872	187,825
Income tax expense	**$ 10,703**	**$ -**

The deferred tax expense of $10,703 is entirely in respect of operations in Nicaragua. The components of the deferred income tax liability are as follows:

	October 31, 2012	October 31, 2011
Equipment	$ 454	$ -
Mineral properties	519,102	479,956
Other	(4,342)	-
Total deferred income tax liability	**$ 515,214**	**$ 479,956**

The deferred tax balance at October 31, 2012 falls due in more than 12 months.

The continuity of the changes in the Company's net deferred tax liability is as follows:

	October 31, 2012	October 31, 2011
Deferred tax liability, beginning of year	$ 479,956	$ -
Deferred tax expense	10,703	-
Business acquisition	24,555	479,956
Deferred tax liability, end of year	**$ 515,214**	**$ 479,956**

The composition of the unrecognized deferred tax asset is provided in the table below:

	October 31, 2012	October 31, 2011
Non-capital losses	$ 561,403	$ 351,427
Mineral properties	102,568	120,419
Share issuance costs	26,127	34,194
	$ 690,098	**$ 506,040**

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

14. Income Taxes (continued)

The Company has loss carry-forwards of $2,025,083 that may be available for tax purposes. No deferred tax asset has been recorded in respect of these losses as it is not probable that the Company will generate sufficient taxable income. The loss carry-forwards are all in respect of Canadian and Nicaraguan operations and expire as follows:

Expiry Date	Canada	Nicaragua	Total
2013	$ -	$ 148,381	$ 148,381
2014	-	52,625	52,625
2015	-	782,439	782,439
2016	-	119,198	119,198
2027	26,008	-	26,008
2028	25,989	-	25,989
2029	68,734	-	68,734
2030	127,873	-	127,873
2031	359,908	-	359,908
2032	313,928	-	313,928
	$ 922,440	**$ 1,102,643**	**$ 2,025,083**

15. Commitment

Effective July 1, 2011, the Company entered into an agreement with an affiliated company in respect of shared lease, overhead and service costs (amended on July 1, 2012). Under the agreement, the Company is billed quarterly for office rental and other services relating to its head office in Vancouver, Canada. The agreement expires on September 29, 2015, but either party may terminate the agreement provided 90 days' notice. The Company is committed to the following future payments:

2013	7,393
2014	7,563
2015	6,932
	$ 21,888

16. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, receivables, restricted cash, accounts payable, accrued liabilities, and due to related parties.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk is on its cash and cash equivalents and receivables. The Company has concentration of risk with respect to cash being held with large financial institutions. The Company's credit risk is mitigated by maintaining its financial liquid assets with highly reputable counterparties. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets noted above.

16. Financial Risk Management (continued)

Foreign Exchange Rate Risk

The Company's exploration expenditures are predominately in US dollars and Nicaraguan Cordobas and equity raised is primarily in Canadian dollars. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates.

The Company is exposed to fluctuations in foreign currency at the time payments are due on exploration costs in US dollars and Nicaraguan Cordobas. The Company manages this risk by monitoring fluctuations in foreign exchange rates and considers using derivative instruments to reduce its exposure to foreign currency risk. A change of 10% of the Canadian dollar against the Nicaraguan Cordoba would result in a change in net loss of $10,711.

Liquidity Risk

The Company's cash and cash equivalents are invested in business accounts and term deposits which are available on demand. The Company manages liquidity risk by preparing and maintaining cash forecasts, which illustrate cash spent to date and cash needs over the short term. At October 31, 2012, the Company had total current assets of $436,313 (2011: $1,522,058). Contractual undiscounted cash flow requirements for financial liabilities as at October 31, 2012 and 2011 are presented below.

October 31, 2012

	Less than 1 year	1 - 3 years	4 - 5 years	Total
Accounts payable and accrued liabilities	$ 316,827	$ -	$ -	$ 316,827
Due to related parties	101,397	-	-	101,397

October 31, 2011

	Less than 1 year	1 - 3 years	4 - 5 years	Total
Accounts payable and accrued liabilities	$ 71,800	$ -	$ -	$ 71,800
Due to related parties	5,269	-	-	5,269

Liquidity Risk

The Company's ability to continue operations in the normal course of business is dependent on several factors, including the ability to secure additional financing. In addition, the recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production, all of which are uncertain. Further information relating to liquidity risk is disclosed in Note 1.

Interest Rate Risk

The Company's cash contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

16. Financial Risk Management (continued)

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

Fair Value

A three-level hierarchy for fair value measurements exists based upon the significance of inputs used in making fair value measurements:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data.

At October 31, 2012, cash and cash equivalents were categorized as level 1. The fair values of other financial instruments, which include receivables, accounts payable and accrued liabilities, and amounts due to and from related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

17. Management of Capital

The Company considers its capital to be its share capital and contributed surplus. The Company's objectives when managing capital are to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. In the management of capital, the Company includes the components of equity attributable to shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions and also taking into consideration externally imposed capital requirements. The annual and updated budgets are approved by the Board of Directors. In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from continuing operations. The Company has no externally imposed capital requirements. The Company's capital management policies have not significantly changed from the year ended October 31, 2011.

Notes to the consolidated financial statements (Expressed in Canadian Dollars)

18. Segmented Information

The Company operates in one business segment, being the acquisition, exploration and development of mineral properties. The Company's assets are located in Canada and Nicaragua.

			October 31, 2012
	Canada	**Nicaragua**	**Total**
Restricted cash	$ 5,750	$ 30,068	**$ 35,818**
Equipment	-	36,055	**36,055**
Mineral Properties	-	4,802,010	**4,802,010**
Total Assets	325,244	4,984,952	**5,310,196**
Net loss	(433,744)	10,604	**(423,140)**

			October 31, 2011
	Canada	**Nicaragua**	**Total**
Restricted cash	$ 17,250	$ -	**$ 17,250**
Equipment	-	37,804	**37,804**
Mineral Properties	-	2,674,409	**2,674,409**
Total Assets	1,331,087	2,920,434	**4,251,521**
Net loss	(873,511)	(33,353)	**(906,864)**

19. Subsequent Events

a) On January 10, 2013, a total of 3,625,000 share purchase warrants with an exercise price of $0.10 expired.

b) On January 28, 2013, 300,000 common shares were released from escrow.