

**Corazon Gold Corp.**  
**Consolidated Financial Statements**  
**Year Ended December 31, 2012 and December 31, 2011**

**Expressed in Canadian Dollars**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Corazon Gold Corp.

We have audited the accompanying consolidated financial statements of Corazon Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained in our audit 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 Corazon Gold Corp. as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Corazon Gold Corp. to continue as a going concern.

***Other Matters***

The consolidated financial statements of Corazon Gold Corp. for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2012.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 25, 2013

Corazon Gold Corp.  
Consolidated statements of financial position  
(Expressed in Canadian dollars)

| As at   | Notes | December 31,<br>2012 | December 31,<br>2011 |
|---|-------|----------------------|----------------------|
| <b>ASSETS</b>                                     |       |                      |                      |
| <b>Current assets</b>                             |       |                      |                      |
| Cash and cash equivalents                         | 4     | \$ 1,657,808         | \$ 5,390,658         |
| Receivables, deposits and prepaid expenses        | 5     | 146,402              | 98,760               |
| Marketable securities                             | 6     | 32,000               | -                    |
| Loan receivable                                   | 7     | -                    | 500,000              |
|   |       | 1,836,210            | 5,989,418            |
| <b>Non-current assets</b>                         |       |                      |                      |
| Reclamation bond                                  |       | 46,284               | 5,000                |
| Property and equipment                            | 8     | 224,193              | 265,377              |
| Exploration and evaluation assets                 | 9     | 4,737,298            | -                    |
|   |       | 5,007,775            | 270,377              |
| <b>TOTAL ASSETS</b>                               |       | <b>\$ 6,843,985</b>  | <b>\$ 6,259,795</b>  |
| <b>LIABILITIES</b>                                |       |                      |                      |
| <b>Current liabilities</b>                        |       |                      |                      |
| Accounts payable and accrued liabilities          | 10    | \$ 501,253           | \$ 280,434           |
| <b>TOTAL LIABILITIES</b>                          |       | <b>501,253</b>       | <b>280,434</b>       |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                      |                      |
| Share capital                                     | 12    | 17,170,268           | 13,842,226           |
| Commitment to issue shares                        | 12    | 288,560              | -                    |
| Share-based payment reserve                       | 12    | 2,328,854            | 1,843,984            |
| Accumulated other comprehensive income (loss)     |       | (9,191)              | 17,314               |
| Accumulated deficit                               |       | (13,435,759)         | (9,724,163)          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |       | <b>6,342,732</b>     | <b>5,979,361</b>     |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>\$ 6,843,985</b>  | <b>\$ 6,259,795</b>  |

Nature and continuance of operations (Note 1)  
Commitments (Note 15)  
Events after reporting period (Note 16)

Approved by the board of directors on April 25, 2013

"John King Burns"  
Director

"Patrick Brauckmann"  
Director

Corazon Gold Corp.  
Consolidated statements of operations and comprehensive loss  
(Expressed in Canadian dollars)

|   | Notes | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---|-------|---------------------------------|---------------------------------|
| <b>Administrative expenses</b>  |       |                                 |                                 |
| Audit and accounting fees   |       | \$ 149,333                      | \$ 103,462                      |
| Consulting fees   |       | 87,827                          | 110,036                         |
| Corporate development   |       | 358,452                         | 441,185                         |
| Depreciation  | 8     | 86,610                          | 60,642                          |
| Finders fees  |       | -                               | 250,000                         |
| Legal fees and expenses   |       | 106,901                         | 155,055                         |
| Office  |       | 296,817                         | 193,691                         |
| Property examination costs  |       | 515,535                         | 6,424                           |
| Regulatory fees   |       | 51,374                          | 116,377                         |
| Salaries and benefits   |       | 491,771                         | 346,348                         |
| Share-based payments  | 12    | 352,368                         | 1,334,258                       |
| Travel and accommodation  |       | 67,189                          | 55,069                          |
|   |       | 2,564,177                       | 3,172,547                       |
| <b>Other expense (income)</b>   |       |                                 |                                 |
| Foreign exchange loss (gain)  |       | 12,628                          | (20,226)                        |
| Interest income   |       | (63,361)                        | (43,474)                        |
| Impairment of exploration and evaluation assets                                     | 9     | 1,198,152                       | 6,133,926                       |
|   |       | 1,147,419                       | 6,070,226                       |
| <b>Loss for the year</b>  |       | <b>3,711,596</b>                | <b>9,242,773</b>                |
| <b>Other comprehensive loss (income)</b>  |       |                                 |                                 |
| Exchange differences on translating foreign operations                              |       | 14,505                          | (55,893)                        |
| Unrealized loss on marketable securities  |       | 12,000                          | -                               |
| <b>Comprehensive loss for the year</b>  |       | <b>\$ 3,738,101</b>             | <b>\$ 9,186,880</b>             |
| <b>Loss per share – basic and diluted</b>   | 12    | <b>\$ 0.05</b>                  | <b>\$ 0.16</b>                  |
| <b>Weighted average number of common shares<br/>outstanding (basic and diluted)</b> |       |                                 |                                 |
|   |       | <b>70,689,868</b>               | <b>56,243,568</b>               |

Corazon Gold Corp.  
Consolidated statement of changes in shareholders' equity  
(Expressed in Canadian dollars)

|  | Share capital      |                      | Commitment<br>to issue<br>shares | Reserves                       |   | Deficit                | Total               |
|--|--------------------|----------------------|----------------------------------|--------------------------------|---|------------------------|---------------------|
|  | Number of shares   | Amount               |                                  | Share-based<br>payment reserve | Foreign currency<br>translation reserve |                        |                     |
| <b>Balance at December 31, 2010</b>  | <b>23,446,318</b>  | <b>\$ 1,046,948</b>  | -                                | -                              | <b>\$ (38,579)</b>                      | <b>\$ (481,390)</b>    | <b>\$ 526,979</b>   |
| Comprehensive loss for the year ended December 31, 2011:   |                    |                      |                                  |                                |   |                        |                     |
| Loss for the year  | -                  | -                    | -                                | -                              | -                                       | (9,242,773)            | (9,242,773)         |
| Other comprehensive income   | -                  | -                    | -                                | -                              | 55,893                                  | -                      | 55,893              |
| <b>Total comprehensive loss for the year</b>   | -                  | -                    | -                                | -                              | <b>55,893</b>                           | <b>(9,242,773)</b>     | <b>(9,186,880)</b>  |
| Transactions with owners, in their capacity as owners, and other transfers for the year ended December 31, 2011: |                    |                      |                                  |                                |   |                        |                     |
| Elimination of 0887398 B.C. Ltd. Shares pursuant to shares exchanged in share purchase agreement (note 2)        | (23,446,318)       | -                    | -                                | -                              | -                                       | -                      | -                   |
| Issue of shares of the Company pursuant to share purchase agreement (note 2)                                     | 23,446,318         | -                    | -                                | -                              | -                                       | -                      | -                   |
| Fair value of monetary assets attributed to issued shares of legal parent at acquisition date (note 2)           | 3,513,734          | 242,790              | -                                | -                              | -                                       | -                      | 242,790             |
| Common shares issued as finders' fees (note 2)   | 1,250,000          | 250,000              | -                                | -                              | -                                       | -                      | 250,000             |
| Common shares issued for cash – private placements (note 12)   | 32,286,500         | 13,572,580           | -                                | -                              | -                                       | -                      | 13,572,580          |
| Share issue costs – cash (note 12)   | -                  | (922,232)            | -                                | -                              | -                                       | -                      | (922,232)           |
| Shares issue costs – warrants (note 12)  | -                  | (347,860)            | -                                | 347,860                        | -                                       | -                      | -                   |
| Share-based payments – stock options   | -                  | -                    | -                                | 1,496,124                      | -                                       | -                      | 1,496,124           |
| <b>Total transactions with owners and other transfers</b>  | <b>37,050,234</b>  | <b>12,795,278</b>    | -                                | <b>1,843,984</b>               | -                                       | -                      | <b>14,639,262</b>   |
| <b>Balance at December 31, 2011</b>  | <b>60,496,552</b>  | <b>\$ 13,842,226</b> | <b>\$ -</b>                      | <b>\$ 1,843,984</b>            | <b>\$ 17,314</b>                        | <b>\$ (9,724,163)</b>  | <b>\$ 5,979,361</b> |
| Comprehensive loss for the year ended December 31, 2012:   |                    |                      |                                  |                                |   |                        |                     |
| Loss for the year  | -                  | -                    | -                                | -                              | -                                       | (3,711,596)            | (3,711,596)         |
| Other comprehensive loss   | -                  | -                    | -                                | -                              | (26,505)                                | -                      | (26,505)            |
| <b>Total comprehensive loss for the year</b>   | -                  | -                    | -                                | -                              | <b>(26,505)</b>                         | <b>(3,711,596)</b>     | <b>(3,738,101)</b>  |
| Transactions with owners, in their capacity as owners, and other transfers for the year ended December 31, 2012: |                    |                      |                                  |                                |   |                        |                     |
| Issue of shares of the Company pursuant to share purchase agreement (note 2)                                     | 47,543,463         | 3,328,042            | 288,560                          | -                              | -                                       | -                      | 3,616,602           |
| Fair value of warrants Issue pursuant to share purchase agreement (note 2)                                       | -                  | -                    | -                                | 28,150                         | -                                       | -                      | 28,150              |
| Share-based payments – stock options   | -                  | -                    | -                                | 456,720                        | -                                       | -                      | 456,720             |
| <b>Balance at December 31, 2012</b>  | <b>108,040,015</b> | <b>\$ 17,170,268</b> | <b>\$ 288,560</b>                | <b>\$ 2,328,854</b>            | <b>\$ (9,191)</b>                       | <b>\$ (13,435,759)</b> | <b>\$ 6,342,732</b> |

See accompanying notes to the consolidated financial statements

Corazon Gold Corp.  
Consolidated statement of cash flow  
(Expressed in Canadian dollars)

| Notes   | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---|---------------------------------|---------------------------------|
| <b>Operating activities</b>                                     |                                 |                                 |
| Loss for the year   | \$ (3,711,596)                  | \$ (9,242,773)                  |
| Items not involving cash:                                       |                                 |                                 |
| Depreciation  | 86,610                          | 60,642                          |
| Issuance of common shares as finders' fees                      | -                               | 250,000                         |
| Share-based payments  | 352,368                         | 1,334,258                       |
| Impairment of exploration and evaluation asset                  | 1,198,152                       | 6,133,926                       |
| Changes in non-cash working capital items:                      |                                 |                                 |
| Receivables, deposits and prepaid expenses                      | (15,799)                        | (78,357)                        |
| Accounts payable and accrued liabilities                        | (128,916)                       | (140,989)                       |
| <b>Net cash flows used in operating activities</b>              | <b>(2,219,181)</b>              | <b>(1,683,293)</b>              |
| <b>Investing activities</b>                                     |                                 |                                 |
| Loan receivable   | 175,000                         | (500,000)                       |
| Acquisition of property and equipment                           | (33,820)                        | (265,716)                       |
| Proceeds from sale of equipment                                 | 29,756                          | -                               |
| Cash acquired on reverse asset acquisition                      | 2                               | 270,613                         |
| Acquisition of ICN  | 37,397                          | -                               |
| Expenditures on exploration and evaluation assets               | (1,700,995)                     | (4,716,669)                     |
| <b>Net cash flows used in investing activities</b>              | <b>(1,492,662)</b>              | <b>(5,211,772)</b>              |
| <b>Financing activities</b>                                     |                                 |                                 |
| Common shares issued for cash                                   | -                               | 13,572,580                      |
| Share issue costs   | -                               | (922,232)                       |
| Decrease in promissory notes                                    | -                               | (429,500)                       |
| <b>Net cash flows from financing activities</b>                 | <b>-</b>                        | <b>12,220,848</b>               |
| Increase (Decrease) in cash and cash equivalents                | (3,711,843)                     | 5,325,783                       |
| Effect of exchange rates on cash holdings in foreign operations | (21,007)                        | 1,449                           |
| Cash and cash equivalents, beginning                            | 5,390,658                       | 63,426                          |
| <b>Cash and cash equivalents, ending</b>                        | <b>\$ 1,657,808</b>             | <b>\$ 5,390,658</b>             |

**Supplementary information for non-cash investing and financing activities:**

|   |             |           |
|---|-------------|-----------|
| Capitalization of share based payments in exploration and evaluation assets     | \$104,352   | \$161,865 |
| Exploration and evaluation asset expenditures incurred through accounts payable | \$236,459   | -         |
| Unrealized loss on marketable securities  | \$12,000    | -         |
| Warrants issued as finder's fee   | -           | 347,861   |
| Warrants issued on acquisition of ICN   | 2,896,061   | -         |
| Common shares issued on acquisition of ICN                                      | 47,543,463  | -         |
| Common shares issued as finder's fee  | -           | 250,000   |
| Net assets received on acquisition of ICN                                       | \$3,607,355 | -         |
| Net liabilities assumed on reverse asset acquisition                            | -           | \$24,823  |
| Cash paid for interest  | -           | -         |
| Cash paid for income taxes  | -           | -         |

**1. Nature and continuance of operations**

Corazon Gold Corp. (the "Company"), formerly ReMac Zinc Corp., was incorporated on April 20, 2005, under the laws of the province of Alberta, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada, United States of America and Nicaragua. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "CGW".

The principal address of the Company is #1060 – 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("ASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2012, the Company had not identified economical reserves at any of its mineral properties and is, therefore, not able to finance day to day activities through operational revenues. The Company's ability to continue as a going concern in the long term is dependent upon the mineral property exploration activities identifying commercially economical mineral reserves and its ability to attain profitable operations or raise equity capital or borrowings sufficient to meet current and future obligations. An inability to raise additional financing may impact the future assessment of the Company to continue as a going concern. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

**2. Acquisitions**

**2011 Reverse asset acquisition**

On January 14, 2011, the Company completed the acquisition of all of the issued and outstanding shares of 0887398 B.C. Ltd. ("0887398") in exchange for the issuance of an aggregate 23,446,318 common shares of the Company on the basis of one common share for common each share of 0887398, pursuant to a share exchange agreement dated October 6, 2010 among 0887398, its shareholders, and its subsidiaries 0887406 B.C. Ltd. ("0887406") and Corazon Exploraciones, S.A. ("Corazon"). 0887398 owned 99.9 % of the issued and outstanding shares of Corazon and 0887406 owned the remaining 0.1% of the issued and outstanding shares of Corazon. In addition, 0887406 agreed to transfer its ownership in Corazon to the Company pursuant to the terms of a share purchase agreement between the Company and 0887406. As a result, 0887398 and 0887406 became wholly-owned subsidiaries of the Company and the Company holds indirectly 100% of the issued and outstanding shares of Corazon.

0887398 and its subsidiary, Corazon, have been principally engaged in the acquisition, exploration and development of a resource property located in Santo Domingo, Nicaragua. As a result of the share exchange, the former shareholders of 0887398 obtained control of the Company. Consequently, the transaction has been recognized as a reverse asset acquisition in these consolidated financial statements, with 0887398 being the deemed acquirer of the net assets of the Company. The consolidated financial statements are a continuation of 0887398 and the net assets of the Company are included on the date of acquisition.

Pursuant to the agreement, the Company granted an aggregate 2% net smelter returns royalty to two controlling shareholders of 0887398. All outstanding options (109,287 options) of the Company at the



**2. Acquisitions (cont'd)**

**2011 Reverse asset acquisition (cont'd)**

date of the transaction were fully vested and were cancelled for no consideration upon closing of the formation.

The Company issued 1,250,000 common shares with an estimated fair value of \$250,000 as a finder's fee and other estimated costs of the transaction of \$54,333 which were all expensed.

Net assets of the Company acquired at fair value include:

|  |                  |
|--|------------------|
| Cash and cash equivalents  | \$270,613        |
| Accounts receivable, deposits and prepaids                                 | 13,576           |
| Reclamation bond   | 5,000            |
|  | 289,189          |
| Current liabilities  | (46,399)         |
| <u>Net assets acquired</u>   | <u>\$242,790</u> |
| <u>Estimated fair value of common shares issues for Company net assets</u> | <u>\$242,790</u> |

**Acquisition of ICN**

On October 16, 2012, the Company completed the acquisition of all of the issued and outstanding shares of ICN Resources Ltd ("ICN") in exchange for the issuance of an aggregate 51,665,740 common shares of the Company on the basis of one common share for each common share of ICN of which 47,543,463 have been issued as at December 31, 2012 and 4,122,277 remain to be issued. The Company also granted 2,896,061 warrants with an estimated fair value of \$28,150 using the Blacksholes Option Pricing Model with a volatility of 81.02%, risk free rate of 1.04% expected life of 1.37 years and a dividend rate of 0% pursuant to the arrangement agreement dated August 10, 2012.

ICN and its subsidiaries, Esmeralda Gold, Inc., Eureka Gold Inc. and Washoe Gold Inc., are principally engaged in the acquisition and exploration of resource properties located in the state of Nevada, United States of America. The acquisition has been accounted for as an asset acquisition.

As a result of the completion of the Transaction, the ICN Shares were delisted from the TSX Venture Exchange effective at market close on October 18, 2012. Also ICN ceased to be a reporting issuer in the Provinces of British Columbia and Alberta in accordance with applicable securities laws.

**2. Acquisition (cont'd)**

**Acquisition costs**

|  |             |
|--|-------------|
| 47,543,463 Corazon common shares issued        | \$3,328,042 |
| 4,122,277 Corazon's commitment to issue shares | 288,560     |
| 2,896,061 Replacement Warrants issued          | 28,150      |
| Transaction costs                              | 41,468      |
|  | \$3,686,220 |

**Allocation of acquisition costs:**

|  |             |
|--|-------------|
| Cash and cash equivalents                | \$61,614    |
| Other current assets                     | 93,093      |
| Exploration and evaluation assets        | 3,893,645   |
| Reclamation bond                         | 41,086      |
| Equipment                                | 33,433      |
| Accounts payable and accrued liabilities | (63,298)    |
| Loan payable                             | (325,000)   |
| Income tax payable                       | (48,353)    |
|  | \$3,686,220 |

**3. Significant accounting policies**

***Basis of preparation***

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

***Consolidation***

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

|                                       | Country of incorporation | Percentage owned* |                   |
|---------------------------------------|--------------------------|-------------------|-------------------|
|                                       |                          | December 31, 2012 | December 31, 2011 |
| ReMac Zinc Development Corp. ("RMZD") | Canada                   | 100%              | 100%              |
| 0887398 B.C. Ltd.                     | Canada                   | 100%              | 100%              |
| 0887406 B.C. Ltd.                     | Canada                   | 100%              | 100%              |
| Corazon Exploraciones, S.A.           | Nicaragua                | 100%              | 100%              |
| ICN Resources Ltd                     | Canada                   | 100%              | -                 |
| Esmeralda Gold Inc.                   | USA                      | 100%              | -                 |
| Eureka Gold Inc.                      | USA                      | 100%              | -                 |
| Washoe Gold Inc.                      | USA                      | 100%              | -                 |

\*Percentage of voting power is in proportion to ownership. Due to the reverse asset acquisition transaction described in Note 2, the comparative figures reflect the 0887406 and Corazon, the subsidiaries of 0887398.

**3. Significant accounting policies (cont'd)**

The results of subsidiaries acquired during the year are included in the statements of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

***Significant accounting judgments, estimates and assumptions***

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment uncertainty 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, relate to:

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project.

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The valuation of shares issued in non-cash transactions are generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

**3. Significant accounting policies (cont'd)**

***Foreign currency translation***

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of Corazon Exploraciones, S.A. is the United States dollar and all other subsidiaries have a Canadian dollar functional currency. The functional currency determination were conducted through analysis of consideration factors identified in the International Accounting Standards ("IAS") 2, The Effects of Changes in Foreign Exchange Rates.

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of comprehensive loss. These differences are recognized in the profit or loss in the period in which the operation is disposed.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, deposits held and other short-term highly liquid investments with original maturities of three months or less from the date of purchase.

***Exploration and evaluation assets***

Exploration and evaluations expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or asset acquisition. Once a license to explore an area has been secured, exploration and evaluation expenditures are capitalized on a property by property basis until such time the property is placed in production, is sold or abandoned or determined to be impaired. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or

**3. Significant accounting policies (cont'd)**

loss. Recoverability of the carrying amount of any resource properties is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Government tax credits received are recorded as a reduction to the cumulative costs incurred. Option payments received on mineral property interests optioned to third parties are credited against previous capitalized acquisition and exploration and evaluation costs for that mineral property and to income to the extent that amounts exceed those costs.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Where a potential impairment is indicated, assessments are performed for each area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

**Equipment**

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

When significant parts of an item of equipment have different useful lives, they are accounted for as separate items (major component) of equipment. The cost of replacing or overhauling a component of equipment is recognized in the carrying amount when there is a future economic benefit to the Company and its cost is reasonably determinable. The carrying amount of the replaced component is written off. Costs of repairs and maintenance are charged to the statement of operations and comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation rates applicable to each category of property and equipment are as follows:

| <b>Class of equipment</b> | <b>Depreciation rate</b>      |
|---------------------------|-------------------------------|
| Vehicles                  | 30% declining balance         |
| Office equipment          | 20% declining balance         |
| Computer equipment        | 30% and 55% declining balance |
| Leasehold improvements    | 3 years straight line         |

**Share-based payments**

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments at the date of grant and amortized over the vesting periods with the corresponding amount being recorded to the option reserve in equity. Share-based payments to non-employees are measured at the fair value of 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 fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such

**3. Significant accounting policies (cont'd)**

that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The share-based payment reserve records items recognized as share-based payments until such time that the share options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

***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 in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. 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.

***Financial instruments***

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are initially measured at fair value and are subsequently measured at amortized cost.

**3. Significant accounting policies (cont'd)**

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

The Company has classified cash and cash equivalents, receivables and deposits, loan receivable, and reclamation bond as loans and receivables.

The Company has classified its marketable securities as available for sale.

The Company has classified accounts payable and accrued liabilities as other liabilities.

The fair value of receivables and deposits, loan receivable, reclamation bond, accounts payable and accrued liabilities and promissory notes approximately their carrying value due to the short term nature of these items. The fair value of cash and cash equivalents and marketable securities are valued at a level 1 fair value measurement.

***Impairment of non-financial assets***

The carrying amount of the Company's non-financial assets (which include property and equipment and explorations and evaluation assets) is reviewed at each reporting date or earlier when facts and circumstances support there is an indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**3. Significant accounting policies (cont'd)**

***Income taxes***

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided using the liability method providing for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

***Restoration and environmental obligations***

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to resource properties along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.



**3. Significant accounting policies (cont'd)**

***Restoration and environmental obligations (cont'd)***

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for resource properties.

**Accounting standards issued but not yet adopted**

The following new and revised accounting standards have not yet been adopted and the Company anticipates that the application of these new standards will not have a material impact on the results and financial position of the Company.

**Accounting standards effective January 1, 2013**

*IAS 1 – Presentation of Financial Statements*

IAS 1 – Presentation of Financial Statements requires an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendments to IAS 1 also require that the tax related to the two separate groups be presented separately. The amended standard is effective for annual periods beginning on or after July 1, 2012.

*IFRS 10 – Consolidated Financial Statements*

IFRS 10 – Consolidated Financial Statements, supersedes SIC 12 – Consolidation – special purpose entities and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements. IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. The standard is effective for annual periods beginning on or after January 1, 2013.

*IFRS 11 – Joint Agreements*

IFRS 11, "Joint Arrangements", requires a venturer to classify its interest in a joint arrangement as a joint venture or a 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". The standard is effective for annual periods beginning on or after January 1, 2013.

*IFRS 12 – Disclosure of Interests in Other Entities*

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to

**3. Significant accounting policies (cont'd)**

*IFRS 12 – Disclosure of Interests in Other Entities (cont'd)*

provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2013.

*IFRS 13 – Fair Value Measurement*

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as 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, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

**Accounting standards effective January 1, 2015**

*IFRS 9 – Financial instruments*

IFRS 9 was issued in November 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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 on January 1, 2015. Early adoption is permitted and the standard is to be applied retrospectively.

**4. Cash and cash equivalents**

The components of cash and cash equivalents are as follows:

|                                    | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------------|------------------------------|------------------------------|
| Cash at bank                       | \$ 272,808                   | \$ 275,658                   |
| Guaranteed investment certificates | 1,385,000                    | 5,115,000                    |
|                                    | <b>\$ 1,657,808</b>          | <b>\$ 5,390,658</b>          |

**5. Receivables, deposits and prepaid expenses**

|                                     | December 31,<br>2012 | December 31,<br>2011 |
|-------------------------------------|----------------------|----------------------|
| Value-added tax and HST receivables | \$ 45,078            | \$ 32,649            |
| Other receivables                   | 54,217               | 54,322               |
| Prepaid expenses                    | 47,107               | 11,789               |
|                                     | <b>\$ 146,402</b>    | <b>\$ 98,760</b>     |

**6. Marketable Securities**

Marketable securities were received as part of the acquisition of ICN. At the time of the acquisition the 400,000 common shares of Pacific Rim Mining Corp. had a fair value of \$44,000. These marketable securities have been classified as available-for-sale.

|   | December 31, 2012 |                  |
|---|-------------------|------------------|
|   | Cost              | Fair Value       |
| Common shares of Pacific Rim Mining Corp. | \$ 44,000         | \$ 32,000        |
|   | <b>\$ 44,000</b>  | <b>\$ 32,000</b> |

**7. Loan receivable**

On December 12, 2011, the Company entered into a loan agreement and advanced \$500,000 to ICN Resources Ltd ("ICN"), a publicly traded company listed on the TSX-V, which shares two common Directors with the Company. The loan was repaid in full including interest paid of \$19,023 on May 2, 2012 in advance to its maturity date of May 12, 2012.

On July 18, 2012, the Company and ICN Resources Ltd ("ICN") entered into a loan agreement whereby the Company loaned up to \$500,000 to ICN. The loan was approved by the exchange on August 2, 2012. The loan bears interest at 10% per annum, calculated monthly and payable at maturity. The assets of ICN, and each of ICN's three US subsidiaries secure the loan. As of October 16, 2012 the Company advanced \$325,000 to ICN in relation to this loan.

After the successful acquisition of ICN on October 16, 2012, the \$325,000 loan was treated as part of the acquisition cost for ICN, (Note 2).

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**8. Equipment**

| <b>2012</b>                | <b>Vehicles</b> | <b>Office equipment</b> | <b>Computer equipment</b> | <b>Leasehold improvements</b> | <b>Total</b> |
|----------------------------|-----------------|-------------------------|---------------------------|-------------------------------|--------------|
| <b>Cost:</b>               |                 |                         |                           |                               |              |
| At December 31, 2011       | \$113,362       | \$106,769               | \$35,827                  | \$77,454                      | \$333,412    |
| Additions                  | 22,772          | 51,969                  | 7,608                     | -                             | 82,349       |
| Disposals                  | (35,639)        | -                       | -                         | -                             | (35,639)     |
| Effect of foreign exchange | (2,213)         | (122)                   | (283)                     | -                             | (2,618)      |
| At December 31, 2012       | \$98,282        | \$158,616               | \$43,152                  | \$77,454                      | \$377,504    |
| <b>Depreciation:</b>       |                 |                         |                           |                               |              |
| At December 31, 2011       | \$31,769        | \$11,817                | \$11,540                  | \$12,909                      | \$68,035     |
| Depreciation               | 15,704          | 23,236                  | 15,397                    | 32,273                        | \$86,610     |
| Effect of foreign exchange | (906)           | (209)                   | (219)                     | -                             | (\$1,334)    |
| At December 31, 2012       | \$46,567        | \$34,844                | \$26,718                  | \$45,182                      | \$153,311    |
| <b>Net book value:</b>     |                 |                         |                           |                               |              |
| At December 31, 2011       | \$81,593        | \$94,952                | \$24,287                  | \$64,545                      | \$265,377    |
| At December 31, 2012       | \$51,715        | \$123,772               | \$16,434                  | \$32,272                      | \$224,193    |

  

| <b>2011</b>                | <b>Vehicles</b> | <b>Office equipment</b> | <b>Computer equipment</b> | <b>Leasehold improvements</b> | <b>Total</b> |
|----------------------------|-----------------|-------------------------|---------------------------|-------------------------------|--------------|
| <b>Cost:</b>               |                 |                         |                           |                               |              |
| At February 26, 2010       | \$ -            | \$ -                    | \$ -                      | \$ -                          | \$ -         |
| Additions                  | 59,748          | 3,098                   | 3,987                     | -                             | 66,833       |
| Effect of foreign exchange | (2,589)         | (80)                    | (120)                     | -                             | (2,789)      |
| At December 31, 2010       | 57,159          | 3,018                   | 3,867                     | -                             | 64,044       |
| Additions                  | 53,210          | 103,521                 | 31,531                    | 77,454                        | 265,716      |
| Effect of foreign exchange | 2,993           | 230                     | 429                       | -                             | 3,652        |
| At December 31, 2011       | \$ 113,362      | \$ 106,769              | \$ 35,827                 | \$ 77,454                     | \$ 333,412   |
| <b>Depreciation:</b>       |                 |                         |                           |                               |              |
| At February 26, 2010       | \$ -            | \$ -                    | \$ -                      | \$ -                          | \$ -         |
| Depreciation               | 5,919           | 100                     | 605                       | -                             | 6,624        |
| Effect of foreign exchange | 150             | 3                       | 15                        | -                             | 168          |
| At December 31, 2010       | 6,069           | 103                     | 620                       | -                             | 6,792        |
| Depreciation               | 25,401          | 11,574                  | 10,758                    | 12,909                        | 60,642       |
| Effect of foreign exchange | 299             | 140                     | 162                       | -                             | 601          |
| At December 31, 2011       | \$ 31,769       | \$ 11,817               | \$ 11,540                 | \$ 12,909                     | \$ 68,035    |
| <b>Net book value:</b>     |                 |                         |                           |                               |              |
| At December 31, 2010       | \$ 51,090       | \$ 2,915                | \$ 3,247                  | \$ -                          | \$ 57,252    |
| At December 31, 2011       | \$ 81,593       | \$ 94,952               | \$ 24,287                 | \$ 64,545                     | \$ 265,377   |

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**9. Exploration and evaluation assets**

Resource property expenditures are detailed on the following table:

| 2012                              | Trout Creek<br>(JJ) Property | Hog Ranch<br>and Estill<br>Property | AWA<br>Property | King's<br>River<br>Property | Silver<br>Cliff | Rockland -<br>Pine Grove<br>Property | Goldfield<br>Bonanza<br>Property | La<br>Ranchera<br>Project | Rio Coco<br>Project | SDL<br>Project | Santo<br>Domingo<br>Project | Total       |
|-----------------------------------|------------------------------|-------------------------------------|-----------------|-----------------------------|-----------------|--------------------------------------|----------------------------------|---------------------------|---------------------|----------------|-----------------------------|-------------|
|                                   | \$                           | \$                                  | \$              | \$                          | \$              | \$                                   | \$                               | \$                        | \$                  | \$             | \$                          | \$          |
| Balance December 31, 2011         | -                            | -                                   | -               | -                           | -               | -                                    | -                                | -                         | -                   | -              | -                           | -           |
| Acquisition costs                 | 48,355                       | 1,387,739                           | 71,867          | 80,628                      | 29,680          | 239,206                              | 2,036,166                        | 1,722                     | 41,881              | 17,778         | -                           | 3,955,022   |
| Cash Payments                     | -                            | -                                   | 1,987           | -                           | -               | -                                    | -                                | -                         | -                   | -              | -                           | 1,987       |
|                                   | 48,355                       | 1,387,739                           | 73,854          | 80,628                      | 29,680          | 239,206                              | 2,036,166                        | 1,722                     | 41,881              | 17,778         | -                           | 3,957,009   |
| Deferred exploration expenditures |                              |                                     |                 |                             |                 |                                      |                                  |                           |                     |                |                             |             |
| Assays                            | -                            | -                                   | 448             | -                           | -               | -                                    | 36,221                           | -                         | 3,373               | -              | 19,717                      | 59,759      |
| Consulting Geological             | -                            | -                                   | -               | -                           | -               | -                                    | -                                | -                         | 85,680              | -              | 58,113                      | 143,793     |
| Corporate Social Responsibility   | -                            | -                                   | -               | -                           | 7               | -                                    | 5,881                            | -                         | 311,652             | 46,255         | 319,913                     | 683,708     |
| Drilling                          | -                            | -                                   | -               | -                           | -               | -                                    | 10,115                           | -                         | -                   | -              | 205,006                     | 215,121     |
| Land/legal                        | 248                          | -                                   | 497             | 248                         | -               | 7,352                                | -                                | -                         | -                   | -              | -                           | 8,345       |
| Meals & Entertainment             | -                            | -                                   | -               | -                           | 317             | -                                    | 796                              | -                         | -                   | -              | -                           | 1,113       |
| Other Costs                       | -                            | -                                   | -               | -                           | -               | -                                    | -                                | -                         | -                   | -              | 8,980                       | 8,980       |
| Other Labor Costs                 | -                            | -                                   | -               | -                           | -               | -                                    | 44,467                           | -                         | 220,199             | 7,710          | 50,115                      | 322,491     |
| Project Administration            | -                            | 1,858                               | 5,729           | 564                         | 3,711           | 7,352                                | 22,383                           | -                         | 113,823             | -              | 45,826                      | 201,246     |
| Project Supervision               | -                            | -                                   | -               | -                           | -               | -                                    | 30,390                           | -                         | 54,012              | -              | 12,039                      | 96,441      |
| Surveying and Mapping             | -                            | -                                   | -               | -                           | -               | -                                    | -                                | -                         | 45,630              | -              | -                           | 45,630      |
| Travel & Accommodation            | -                            | -                                   | 1,271           | -                           | 633             | 3,778                                | 20,868                           | -                         | -                   | -              | 4,530                       | 31,080      |
| Wages & Salary                    | -                            | -                                   | -               | -                           | -               | -                                    | -                                | -                         | 26,307              | -              | 134,427                     | 160,734     |
|                                   | 248                          | 1,858                               | 7,945           | 812                         | 4,668           | 18,482                               | 171,121                          | -                         | 860,676             | 53,965         | 858,666                     | 1,978,441   |
| Net costs for the period          | 48,603                       | 1,389,597                           | 81,799          | 81,440                      | 34,348          | 257,688                              | 2,207,287                        | 1,722                     | 902,557             | 71,743         | 858,666                     | 5,935,450   |
| Impairment loss                   | -                            | -                                   | (81,799)        | -                           | -               | (257,688)                            | -                                | -                         | -                   | -              | (858,666)                   | (1,198,152) |
| Balance, December 31, 2012        | 48,063                       | 1,389,597                           | -               | 81,440                      | 34,348          | -                                    | 2,207,287                        | 1,722                     | 902,557             | 71,743         | -                           | 4,737,298   |

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**9. Exploration and evaluation assets**

| 2011                              | Santo Domingo Project | Total       |
|-----------------------------------|-----------------------|-------------|
|                                   | \$                    | \$          |
| Balance December 31, 2010         | 1,190,422             | 1,190,422   |
| Acquisition costs                 | -                     | -           |
| Cash Payments                     | 2,587,597             | 2,587,597   |
| Deferred exploration expenditures | 2,587,597             | 2,587,597   |
| Assays                            | 53,777                | 53,777      |
| Consulting Geological             | 232,913               | 232,913     |
| Corporate Social Responsibility   | 489,847               | 489,847     |
| Drilling                          | 491,969               | 491,969     |
| Land/legal                        | -                     | -           |
| Meals & Entertainment             | -                     | -           |
| Other Costs                       | -                     | -           |
| Other Labor Costs                 | 156,685               | 156,685     |
| Project Administration            | 466,967               | 466,967     |
| Project Supervision               | -                     | -           |
| Surveying and Mapping             | 8,588                 | 8,588       |
| Travel & Accommodation            | 68,964                | 68,964      |
| Wages & Salary                    | 386,197               | 386,197     |
|                                   | 2,355,907             | 2,355,907   |
| Net costs for the period          | 4,943,504             | 4,943,504   |
| Impairment loss                   | (6,133,926)           | (6,133,926) |
| Balance, December 31, 2011        | -                     | -           |

**9. Exploration and evaluation assets (cont'd)**

**Santo Domingo property:**

On April 15, 2010, Corazon entered into a Concession Agreement which provides the option to acquire a 100% interest in the Santo Domingo concession from the Cooperativa de Pequeños Mineros de Santo Domingo RL (the "Co-op") for US\$5,500,000. The Concession Agreement required the Company to pay an initial US\$500,000 on April 15, 2010 (paid), and to make two payments of US\$2,500,000, the first no later than April 15, 2011 (paid) and the second by April 15, 2012, respectively, to complete the acquisition of a 100% interest in the concession.

The Company elected not to make its April 15, 2012 option payment and notified the Co-op that it was abandoning the project. The Company wrote down the carrying value of the Santo Domingo concession to \$nil as at December 31, 2011 and costs subsequent to December 31, 2011 were expensed as incurred and totaled \$858,666 through to December 31, 2012. This project was closed completely in October, 2012.

**La Ranchera Project, Nicaragua**

In February 2012, Nicaragua's Ministry of Energy and Mines ("MEM") granted the Company a 25-year exploration and exploitation concession for La Ranchera. The concessions are subject to a 3% government royalty.

**SDL Project, Nicaragua**

In February 2012, Nicaragua's MEM granted the Company two exploration and exploitation concessions, Pijibay and Pilatos, in the Santo Domingo-La Libertad mining district. The concessions are subject to a 3% government royalty.

**Rio Coco Project, Nicaragua**

In April 2012, the Company was granted three contiguous, 25-year exploration and exploitation concessions by Nicaragua's MEM and the Autonomous Region of the Northern Atlantic (RAAN). The three contiguous Arcosa, Azul and Calcedonia concessions are located along the Rio Coco River. The concessions are subject to a 3% government royalty.

**Buckeye project, Colorado, USA**

The Company entered into an agreement to acquire a group of mineral claims known as the Buckeye Property in central Colorado from the Buckeye Partnership, owned in part by the Company's exploration manager. The Company incurred costs of \$264,348, plus a US\$50,000 non-refundable deposit upon signing of the agreement, which was recorded under property examination cost expense. During the year ended December 31, 2012 the Company elected not to advance any further funds and to not enter into an option agreement with the Buckeye Partnership.

**9. Exploration and evaluation assets (cont'd)**

**ReMac Zinc property, BC, Canada**

The ReMac Zinc project consists of several mineral claims located in British Columbia, Canada owned 100% by the Company.

The Company maintains ownership in the ReMac Zinc property which has a nil carrying value, and no exploration planned in the near future. The Company is currently assessing the viability of continued ownership in the ReMac Zinc property. All resource property expenditures incurred to December 31, 2011 have been impaired. The Company did not incur any resource expenditures on the property during the year ended December 31, 2012.

**Hog Ranch and Estill Property, Nevada, USA**

The Company owns a 100% interest in certain unpatented lode claims and private fee lands located in Washoe County, Nevada. The property was included in the ICN acquisition (Note 2).

The Hog Ranch property is subject to an annual advance royalty of US\$20,000, payable on November 15 of each year, and a production royalty of 1% of gross proceeds on the sale of minerals from the properties. The Company is also required to pay a further US\$250,000 in cash upon the earlier of (i) confirmation by an independent third party of a measured and indicated gold reserve of more than 1.0 million ounces, and (ii) completion of a positive bankable feasibility study which demonstrates a mine capable of producing at least 100,000 ounces of gold per annum.

The Estill property is subject to a lease payment of US\$17,760 on October 1 of each year, should the total exploration expenditure on the Estill properties be less than US\$200,000; or US\$11,840 on October 1 of each year, should the total exploration expenditure on the Estill properties be US\$200,000 or more. The Estill private fee lands are subject to a 3% NSR with the exception that precious metals production is subject to a royalty ranging from 1.8% to 3.0%, plus an additional 0.3% for every \$100/oz increment of gold price above \$400/oz.

Pacific Rim Mining Corp. ("Pacific Rim") has been granted the option to acquire a 65% interest in the Hog Ranch Property and Estill Properties. Pacific Rim has issued 400,000 common shares to the Company. In order to complete the acquisition of the 65% interest, Pacific Rim is required to issue an additional 600,000 common shares to the Company in stages to July, 2015, and incur aggregate exploration expenditures of US\$8,000,000 by July, 2015.



**9. Exploration and evaluation assets (cont'd)**

**Trout Creek (JJ) Property, Nevada, USA**

The Company has an option to acquire a 100% interest in certain mining claims located in Humboldt County, Nevada. The property was included in the ICN acquisition (Note 2). Pursuant to a series of agreements and amendments, the Company is required to pay an additional US\$965,000 to earn its interest. The Company is also required to incur cumulative work expenditures of US\$1,000,000 over six years, of which a cumulative of US\$175,000 is to be incurred by May 2013. The Company is in negotiations with the optionors to amend the terms of the option agreement.

The property is subject to a 2% NSR on gold and silver, half of which may be purchased by the Company for US\$1,000,000 at any time prior to completion of the first year of commercial production.

**Rockland-Pine Grove Property, Nevada, USA**

The Company had a letter agreement to lease a 100% interest in the Rockland-Pine Grove Property located in Lyon County, Nevada. The property was included in the ICN acquisition (Note 2). In order to obtain 100% interest on these claims the Company was required to pay minimum annual lease payments ranging from US\$40,000 to US\$100,000 and incur work expenditures of US\$525,000 over six years. Subsequent to the year ended December 31, 2012 the Company terminated the agreement. Consequently the Company wrote off the property costs during the year ended December 31, 2012.

**Goldfield Bonanza Property, Nevada, USA**

The Company has an option agreement with Lode Star Gold, Inc. ("Lode Star") to acquire an 80% interest in the Goldfield Bonanza Property located in Nevada. The property was included in the ICN acquisition (Note 2). To complete the acquisition of the property the Company is required to pay US\$2,800,000.

Subsequent to December 31, 2012, the Company renegotiated the terms of the option agreement with Lode Star. Pursuant to the amended agreement, the Company is required to pay the following:

- (i) US\$50,000 by April 15, 2013 and 500,000 common shares upon TSX-V approval;
- (ii) US\$50,000 by October 7, 2013;
- (iii) US\$300,000 by April 7, 2014;
- (iv) US\$800,000 by April 7, 2015;
- (v) US\$1,600,000 by April 7, 2016

Under the renegotiated agreement cumulative land payments total US\$2,800,000 and 500,000 common shares.

The Company is also required to incur cumulative exploration expenditures of US\$5,000,000 in stages by April 2015 and issue 750,000 units of the Company at the earlier of (i) April 13, 2014 and (ii) 30 days after incurring US\$3,500,000 in cumulative exploration expenditures.

Each unit will consist of one common share and one full share purchase warrant, with each warrant entitling the holder to purchase one additional common share for a period of two years at an exercise price equal to 110% of the average closing market price of the Company's common shares over a five consecutive day period immediately prior to the date of issuance.

**9. Exploration and evaluation assets (cont'd)**

**Kings River Property, Nevada, USA**

The Company has an option agreement with Seabridge Gold Inc. ("SEA") to acquire a 100% interest in the King River Project located in Humboldt County, Nevada. The property was included in the ICN acquisition (Note 2). To complete the acquisition of the property the Company was required to pay US\$100,000 by November, 2012.

The Company has renegotiated the terms of the option agreement and the US\$100,000 payment was postponed to November 2013. The Company granted an additional 0.5% NSR to SEA for a total of 2% NSR.

**AWA Property, Nevada, USA**

The Company had an option agreement to acquire a 100% interest in the AWA property located in Nevada. The property was included in the ICN acquisition (Note 2). To complete the acquisition of the property the Company was required to pay US\$980,000 and incur cumulative exploration expenditures of US\$575,000. Subsequent to the year ended December 31, 2012 the Company terminated the agreement. Consequently, the Company wrote off the property costs during the year ended December 31, 2012.

**Silver Cliff Property, Colorado, USA**

The Company has an option agreement to acquire a 100% interest in the Silver Cliff Property located in Custer County, Colorado. The property was included in the ICN acquisition (Note 2). To complete the acquisition of the property the Company is required to pay US\$2,000,000 and issue 1,750,000 common shares.

Subsequent to December 31, 2012, the Company renegotiated the terms of the option agreement. Pursuant to the amended agreement, the Company is required to pay the following:

- (i) US\$30,000 cash and 250,000 common shares by January 25, 2013 (paid and issued subsequent to Dec 31, 2012);
- (ii) US\$50,000 cash and 250,000 common shares by January 11, 2014;
- (iii) US\$100,000 cash and 250,000 common shares by January 11, 2015;
- (iv) US\$120,000 cash and 500,000 common shares by January 11, 2016;
- (v) US\$200,000 cash and 500,000 common shares by January 11, 2017;
- (vi) US\$250,000 cash by January 11, 2018;
- (vii) US\$1,250,000 cash by January 11, 2019.

The Company is also required to pay a bonus in connection with achieving certain project milestones and the Vendor is entitled to a net smelter returns royalty from the Property ranging from ½% to 2% depending on underlying status of additional property the Company acquires, if any, within a defined area of interest in the district.

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**10. Accounts payable and accrued liabilities**

|                     | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------|------------------------------|------------------------------|
| Accounts payable    | \$ 195,454                   | \$ 74,508                    |
| Accrued liabilities | 226,441                      | 189,419                      |
| Payroll liabilities | 79,358                       | 16,507                       |
|                     | <b>\$ 501,253</b>            | <b>\$ 280,434</b>            |

**11. Income tax expense and deferred tax assets and liabilities to be reimburse by tax department.**

A reconciliation of income taxes at statutory rates with the reported taxes is as follow:

|  | <b>Year ended<br/>December 31,<br/>2012</b> | <b>Year ended<br/>December 31,<br/>2011</b> |
|--|---|---|
| Loss for the year  | \$ (3,711,594)                              | \$ (9,242,773)                              |
| Expected income tax recovery                                 | \$ (928,000)                                | \$ (2,449,335)                              |
| Change in statutory, foreign tax, foreign exchange and other | (53,000)                                    | 174,000                                     |
| Permanent differences  | 80,000                                      | 110,000                                     |
| Impact of acquisition of ICN                                 | (2,475,000)                                 | -   |
| Change in unrecognized deductible temporary differences      | 3,376,000                                   | 2,513,000                                   |
| Total income tax expense (recovery)                          | <b>\$ -</b>                                 | <b>\$ -</b>                                 |

The Company has the following temporary differences and tax losses for which no deferred tax asset has been recognized:

| <b>Temporary differences</b>                   | <b>2012</b>  | <b>Expiry Date</b> | <b>2011</b> | <b>Expiry Date</b> |
|--|--------------|--------------------|-------------|--------------------|
| Exploration and evaluation asset               | \$ 5,010,000 | No expiry date     | \$ -        | No expiry date     |
| Property and equipment                         | 374,000      | No expiry date     | 37,000      | No expiry date     |
| Share issue costs                              | 613,000      | 2031 to 2016       | 954,000     | 2012 to 2015       |
| Marketable securities                          | 24,000       | No expiry date     | -           | No expiry date     |
| Non-capital losses available for future period | 17,699,000   | 2013 to 2032       | 11,170,000  | 2013 to 2031       |
| Canada   | 10,000,000   | 2013 to 2032       | 4,360,000   | 2014 to 2031       |
| USA  | 620,000      | 2028 to 2032       | -           | Not applicable     |
| Nicaragua                                      | 7,707,000    | 2013 to 2015       | 6,810,000   | 2013 to 2014       |

**12. Share capital and reserves**

***Authorized share capital***

The Company has the ability to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

***Issued share capital***

At December 31, 2012 there were 108,040,015 issued and fully paid common shares (December 31, 2011 – 60,496,552).

***Commitment to issue shares on acquisition of ICN***

On October 16, 2012, the Company completed the acquisition of all of the issued and outstanding shares of ICN in exchange for the issuance of an aggregate 51,665,740 common shares of the Company on the basis of one common share for each common share of ICN. As at December 31, 2012, the Company issued 47,573,463 common shares and is committed to issue the remaining 4,122,277 prior to October 2015 (Note 2).

***Basic and diluted loss per share***

The calculation of basic and diluted loss per share for the year ended December 31, 2012 was based on the loss attributable to common shareholders of \$3,711,596 (2011 - \$9,242,773) and the weighted average number of common shares outstanding of 70,689,868 (2011 – 56,243,568).

Diluted loss per share did not include the effect of 4,700,000 stock options and 2,250,000 warrants outstanding as the effect would be anti-dilutive.

***Stock options***

The Company has adopted an incentive share option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable share options.

In conjunction with the closing of the reverse assets acquisition transaction on January 14, 2011, all previous, fully vested, outstanding share options (109,287) were cancelled.

On March 2, 2011, the Company granted an aggregate of 2,100,000 stock options to directors, officers and employees of the Company at an exercise price of \$0.75 per share. The options have a five year expiry. The options vest as to 25% every six months, commencing on the grant date.

On April 19, 2011, the Company granted an aggregate of 200,000 stock options to officers and employees of the Company at an exercise price of \$0.80 per share. The options have a five year expiry. The options vest as to 25% every six months, commencing on the grant date.

On October 7, 2011, the Company granted an aggregate of 2,650,000 stock options to directors, officers and employees of the Company at an exercise price of \$0.30 per share. The options have a five year expiry. The options vest as to 25% every six months, commencing on the grant date.

There were no options granted during the year ended December 31, 2012. The changes in options during the year ended December 31, 2012 are as follow:

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12. Share capital and reserves (cont'd)

*Stock options (cont'd)*

|  | 2012              |                                 | 2011              |                                 |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
|  | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning of year | 4,800,000         | \$ 0.50                         | -                 | \$ -                            |
| Options granted                        | -                 | -                               | 4,950,000         | 0.51                            |
| Options cancelled / expired            | (25,000)          | 3.58                            | (37,500)          | 3.58                            |
| Options forfeited                      | (75,000)          | 0.77                            | (112,500)         | 0.77                            |
| Options outstanding, end of year       | 4,700,000         | \$ 0.50                         | 4,800,000         | \$ 0.50                         |
| Options exercisable, end of year       | 4,062,500         | \$ 0.54                         | 1,737,500         | \$ 0.58                         |

Details of options outstanding as at December 31, 2012 are as follows:

| Exercise price | Number of options outstanding | Contractual life remaining | Number of options exercisable |
|----------------|-------------------------------|----------------------------|-------------------------------|
| \$ 0.75        | 2,000,000                     | 3.17                       | 2,000,000                     |
| \$ 0.80        | 150,000                       | 3.30                       | 150,000                       |
| \$ 0.30        | 2,550,000                     | 3.77                       | 1,912,500                     |
|                | 4,700,000                     |                            | 4,062,500                     |

The weighted average contractual life remaining of options outstanding as at December 31, 2012 is 3.5 years.

Details of options outstanding as at December 31, 2011 are as follows:

| Number of options outstanding | Number of options exercisable |
|-------------------------------|-------------------------------|
| 2,000,000                     | 1,000,000                     |
| 150,000                       | 75,000                        |
| 2,650,000                     | 662,500                       |
| 4,800,000                     | 1,737,500                     |

The weighted average contractual life remaining of options outstanding as at December 31, 2011 is 4.51 years.

**12. Share capital and reserves (cont'd)**

**Stock Options (Cont'd)**

The weighted average fair value of options granted during the year was \$0.50. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

|                          | 2011          |
|--------------------------|---------------|
| Expected life of options | 2.5 – 4 years |
| Annualized volatility    | 170% - 210%   |
| Risk-free interest rate  | 1.04% - 2.41% |
| Dividend rate            | 0%            |

**Warrants**

As part of the successful acquisition of ICN, the Company issued 2,896,061 warrants pursuant to the arrangement agreement dated August 10, 2012. (Note 2)

| 2012                                    |                   |                                 |
|---|-------------------|---------------------------------|
|   | Number of options | Weighted average exercise price |
| Warrants outstanding, beginning of year | 711,240           | \$ 0.67                         |
| Warrants issued                         | 2,896,061         | 0.14                            |
| Warrants cancelled / expired            | (1,357,301)       | 0.42                            |
| Warrants outstanding, end of year       | 2,250,000         | \$ 0.14                         |

The weighted average fair value of the warrants issued during the year was \$0.01

| Exercise price | Number of warrants outstanding | Expiry date       |
|----------------|--------------------------------|-------------------|
| \$ 0.44        | 500,000                        | April 7, 2013     |
| \$ 0.25        | 500,000                        | October 7, 2013   |
| \$ 0.26        | 750,000                        | December 13, 2013 |
| \$ 0.14        | 500,000                        | April 9, 2014     |
|                | 2,250,000                      |                   |

**12. Share capital (cont'd)**

**Warrants (cont'd)**

|  |       |
|--|-------|
| Weighted average fair value at grant date (\$) | 0.01  |
| Average risk-free interest rate (%)            | 1.04  |
| Expected life (years)                          | 1.37  |
| Dividend rate                                  | 0%    |
| Forfeiture rate                                | 0%    |
| Expected volatility (%)                        | 81.02 |

At December 31, 2011 there were 711,240 warrants outstanding which were issued to the agents in connection with the April 12, 2011 private placement. These warrants had an exercise price of \$0.67 and they expired on April 12, 2012.

**13. Related party transactions**

The following amounts due to related parties are included in trade payables and accrued liabilities:

|  | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|------------------------------|------------------------------|
| Directors of the Company and of its subsidiaries | \$ 17,890                    | \$ 15,000                    |

**Key management personnel compensation**

|  | <b>Year ended<br/>December 31,<br/>2012</b> | <b>Year ended<br/>December 31,<br/>2011</b> |
|--|---|---|
| Short-term employee benefits – salaries, wages and consulting fees | \$ 268,313                                  | \$ 237,334                                  |
| Directors fees   | 44,000                                      | -   |
| Share-based compensation   | 323,329                                     | 399,130                                     |
|  | <b>\$ 635,642</b>                           | <b>\$ 636,464</b>                           |

**14. Financial risk management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and Nicaragua. This risk is managed by using major banks that are high credit quality financial institutions as

**14. Financial risk management (cont'd)**

***Credit risk (cont'd)***

determined by rating agencies. The Company's secondary exposure to risk is on its other receivables. This risk is minimal for other receivables as they consist primarily of refundable input taxes.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding (see note 1).

All of the contractual maturities of the Company's non-derivative financial liabilities are within one year of the financial statement end date.

***Foreign exchange risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's Nicaraguan subsidiary is exposed to currency risk as it incurs expenditures that are denominated in the Nicaraguan Cordoba while its functional currency is the United States dollar. The parent company is exposed to currency risk as it holds cash balances that are denominated in United

States dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following is an analysis of the Canadian dollar equivalent of financial assets and liabilities of the Company that are denominated in US dollars and its subsidiary Corazon that are denominated in Nicaraguan Cordobas:

|                           | USD        | Nicaraguan<br>Cordoba<br>Expressed In USD | December 31,<br>2012 |
|---------------------------|------------|---|----------------------|
| Cash and cash equivalents | \$ 107,150 | \$ 8,097                                  | \$ 115,247           |
| Accounts receivable       | 48,720     | 5,101                                     | 53,821               |
| Accounts payable          | (63,315)   | (44,747)                                  | (108,062)            |
|                           | \$ 92,555  | \$ (31,549)                               | \$ 61,006            |

Based on the above net exposures, as at December 31, 2012, a 10% change in the US dollar to Canadian dollar exchange rate would impact the Company's net loss by \$9,256. A 10% change in the Nicaraguan Cordoba to Canadian dollar exchange rate would impact the Company's net gain by \$3,155.



**14. Financial risk management (cont'd)**

***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk arises from the interest rate impact on its cash equivalents and loan receivable. Because the cash equivalents are held on deposit at financial institutions and may be withdrawn at any time, the Company's exposure to interest rate risk is not significant. The fixed interest rate on the loan receivable is estimated to approximate market rates as at December 31, 2012.

***Capital Management***

The Company's objectives when managing capital are to:

- ensure there are adequate capital resources to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and exploration of resource properties;
- to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk;
- to maintain investor, creditor and market confidence to sustain future development of the business; and
- to provide returns to shareholders.

The properties in which the Company currently has an interest are in the exploration stage and as such, the Company is dependent on external financing to fund its activities.

The Company has no external capital requirements or restrictions.

***Classification of financial instruments***

Financial assets included in the statement of financial position are as follows:

|                           | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------------|------------------------------|------------------------------|
| Cash and cash equivalents | \$ 1,657,808                 | \$ 5,390,658                 |
| Marketable securities     | 32,000                       | -                            |
| Loans and receivables:    |                              |                              |
| Other receivables         | 50,838                       | 51,666                       |
| Loan receivable           | -                            | 500,000                      |
| Reclamation bond          | 46,284                       | 5,000                        |
|                           | <b>\$ 1,786,930</b>          | <b>\$ 5,947,324</b>          |

Financial liabilities included in the statement of financial position are as follows:

|   | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|------------------------------|------------------------------|
| Non-derivative other financial liabilities: |                              |                              |
| Accounts payable and accrued liabilities    | \$ 501,253                   | \$ 280,434                   |
|   | <b>\$ 501,253</b>            | <b>\$ 280,434</b>            |

**14. Financial risk management (cont'd)**

***Fair value***

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- 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 or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

**15. Segmented information**

***Operating segments***

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

***Geographic segments***

The following non-current assets, excluding financial assets, are located in the following countries:

| <b>As at December 31, 2012</b>    |               |              |                  |              |
|-----------------------------------|---------------|--------------|------------------|--------------|
|                                   | <b>Canada</b> | <b>USA</b>   | <b>Nicaragua</b> | <b>Total</b> |
| Equipment                         | \$ 111,387    | \$ 30,825    | \$ 81,981        | \$ 224,193   |
| Exploration and evaluation assets | -             | 3,761,278    | 976,020          | 4,737,298    |
|                                   | \$ 111,387    | \$ 3,792,103 | \$ 1,058,001     | \$ 4,961,491 |

| <b>As at December 31, 2011</b> |               |                  |              |
|--------------------------------|---------------|------------------|--------------|
|                                | <b>Canada</b> | <b>Nicaragua</b> | <b>Total</b> |
| Equipment                      | \$ 162,981    | \$ 102,396       | \$ 265,377   |
|                                | \$ 162,981    | \$ 102,396       | \$ 265,377   |

**16. Commitments**

The Company has entered into a 3-year premises lease for its Vancouver head office which requires the Company to pay \$74,152, and \$37,074 per year for 2013 and 2014, respectively.

Pursuant to the acquisition of ICN, the Company has yet to issue 4,122,277 Corazon shares for ICN shares. The shareholders have until October 2015 to exchange the shares.

**17. Events after the reporting period**

On January 23, 2013 the Company issued 250,000 shares to owners of the Silver Cliff property as part of the amendment of the property agreement. (Note 9)

On April 7, 2013, 500,000 warrants expired unexercised.