
# ANNUAL REPORT 2012

GRR

**Golden Reign Resources Ltd. is a junior mining exploration company working to rapidly advance and unlock value at its 138 square kilometre land package in Nueva Segovia, Nicaragua.**

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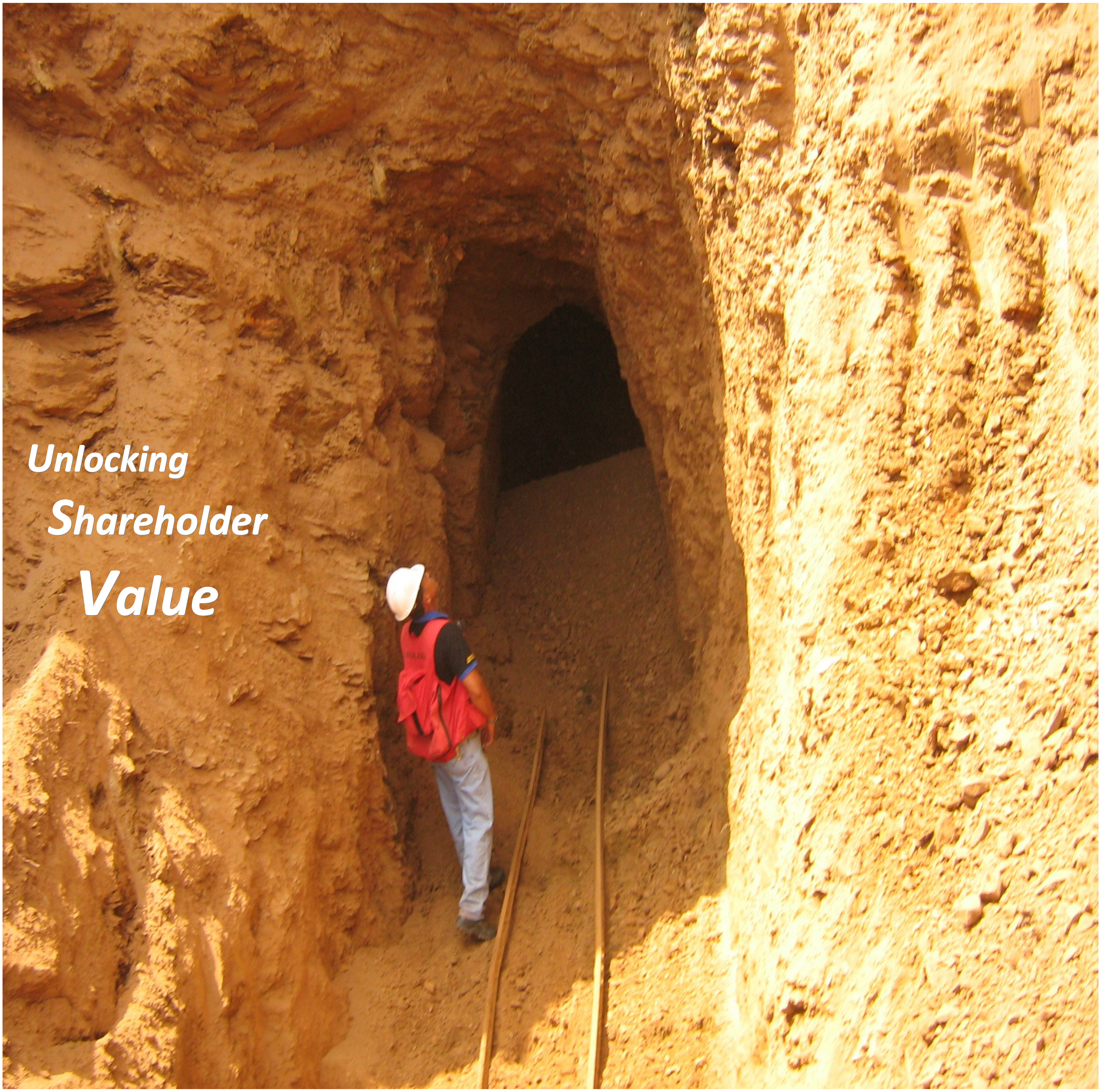
*John Kowalchuk, P.Geo, Project Manager, with our Murra crew at the Santos Garcia quartz vein showing in the northern Murra District of the Company's flagship San Albino-Murra Property.*




**In 2012, our Company made tremendous strides, reaching and surpassing major milestones on its continuing mission to unlock shareholder value.**

# *PRESIDENT'S MESSAGE*

Dear Shareholders,

In 2012, Golden Reign continued to advance its vision of developing high-grade assets, enhancing shareholder value and being a positive contributor in the local communities.

At the beginning of the year - May 2011 - we started our definition drilling program at the San Albino Mine area. The intention of the program was to extend the high-grade mineralization outlined by our initial 2010 drill program, refine the geological model and obtain sufficient data to calculate an NI 43-101 compliant mineral resource. Drilling concluded in July 2012. In all, over 36,000 metres was cored - outlining the San Albino Gold Deposit in just 15 months.

Concurrent with the definition drill program, we began a major trenching program just to the south of San Albino. Initially we planned to complete only a handful of trenches to test what was, at that time, virgin territory. Based upon the great success of our early trenching, we expanded the program almost five-fold. We outlined Las Conchitas, a very promising area covering roughly 2.5 square kilometres, situated just 1.5 kilometres south of San Albino Gold Deposit. It hosts four highly-mineralized zones, similar in style of mineralization to the San Albino Gold Deposit.

In February 2012, we acquired the El Jicaro Concession - almost doubling our land package to 138 square kilometres. Situated to the south/south-east of our flagship San Albino-Murra Gold Property, this concession captures the southern extension of the mineralized structures, and hosts numerous old workings and mines.

By year end - April 2012 - we had met all the requirements, completing our initial 80% earn-in on the San Albino-Murra Gold Property roughly 1.5 years in advance.

As exciting as 2012 was for Golden Reign, 2013 is shaping up as a *pivotal* year for the company. It marks the delivery of our first resource estimate. The San Albino Gold Deposit, a robust, high-grade asset, has significant potential for the expansion of both open-pittable and underground resources. Additionally, we are continuing to explore and unlock the value of the Las Conchitas area, as well as our Central and Northern Districts.

Our focus for 2013/2014 is excelled exploration, with the strategy of outlining, first, *additional* high-grade open-pittable resources, then, adding to current underground resources. We are in an era where the average grade of producing and undeveloped mines (+1M ounces) is just 0.82 g/t gold. High-grade gold deposits, such as our San Albino Gold Deposit, are increasingly rare. Grade is king, and at better than 7 g/t we have it in spades.

The management of Golden Reign would like to express our gratitude to you, our shareholder, for your steadfast interest and support. We encourage you to visit our website, www.goldenreign.com, for the latest news and information. Our quest to build shareholder value through exploration and the development of value-creation prospects continues.

Sincerely,

**Kim Evans**
CEO & President


## Performance Scorecard

| 2011/2012 Key Objectives | 2011/2012 Results | 2013 Key Objectives |
|---|---|---|
| Complete 2011/2012 definition drill program at the San Albino Gold Deposit | Definition drilling was completed in mid-July 2012. A total of 36,395 metres was cored by diamond drilling over a 15 month period | Commence the planned 2013 diamond drilling campaign, focusing on:<br>• Expanding open-pittable resources at the San Albino Gold Deposit<br>• Adding potentially open-pittable resources at Las Conchitas, some 1.5 kilometres south of the San Albino Gold Deposit |
| Deliver NI 43-101 compliant resource estimate for the San Albino Gold Deposit | On November 20, 2012, Golden Reign announced its initial mineral resource estimate * of:<br>• Indicated resources of 95,000 ounces gold equivalent at 8.47 g/t<br>• Inferred resources of 805,000 ounces gold equivalent at 7.43 g/t | In early January 2013, Golden Reign published an independent NI 43-101 compliant technical report and resource estimate for the San Albino Gold Deposit |
| Complete the 80% earn-in on the flagship San Albino– Murra Gold Property | On May 7, 2012, Golden Reign completed an early (1.5 years in advance) earn-in of its 80% interest in the San Albino-Murra Property . The remaining 20% interest in the property was locked-up by Golden Reign in October 2012—for 100% ownership | Advance greenfield exploration and begin to unlock the blue-sky potential in the Central and Northern Districts of the flagship San Albino-Murra Property |
| Acquire additional, highly prospective landholdings, capturing the southern extension of the Corona de Oro Gold Belt | In February 2012, Golden Reign acquired the El Jicaro Concession, south of the San Albino-Murra Gold Property, for US$120,000. At 5,071 hectares, this transaction has nearly doubled the Company's landholdings to 13,771 hectares (138 sqkm) | Commence exploration activities on the El Jicaro Concession, including detailed geological mapping and prospecting, and trenching |
| Recapitalize Company to ensure continuation of exploration activities | In July 2012, despite challenging market conditions, Golden Reign successfully completed a fundraising of $3.2 million | |

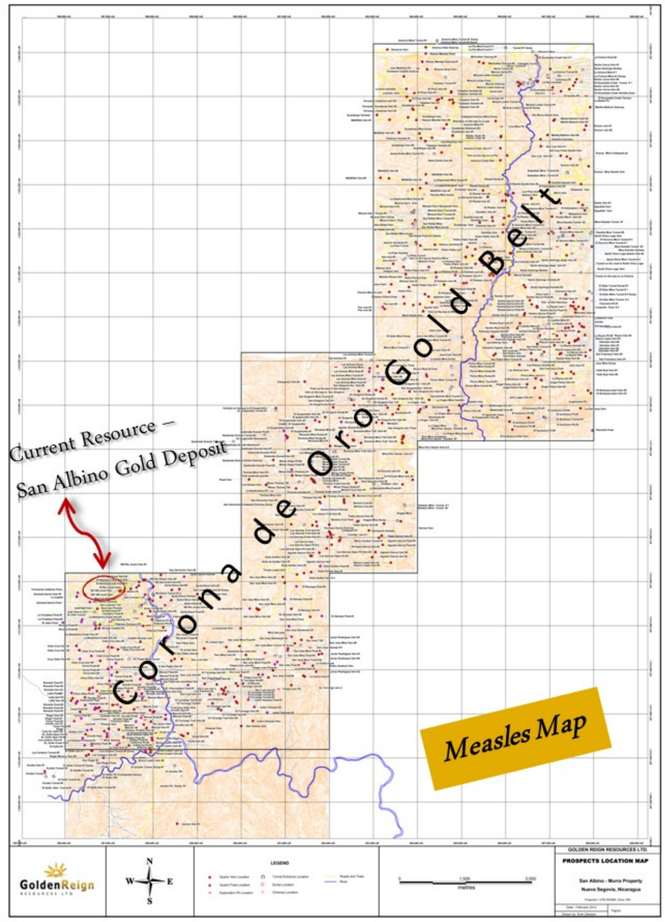
* see page 5 for details of the NI 43-101 compliant resource estimate on the San Albino Gold Deposit

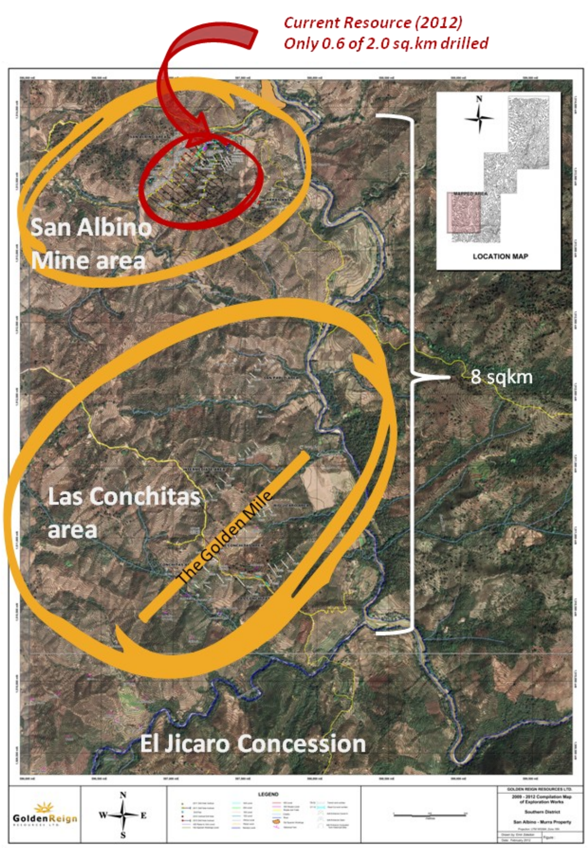
# EXPLORING FOR GOLD IN NICARAGUA

Since the early days of signing of the option agreement in late June 2009 and delving deep into archives to unearth long forgotten maps, letters, diaries and mine plans through to the present day, Golden Reign's unerring approach has been to systematically find, develop and compile information - building, layer upon layer, a geological interpretation that is the key to unlocking the value of the San Albino-Murra Gold Property.

Similar in approach to the old-timers who worked this property nearly 100 years ago, we are hunting gold deposits more akin to a stealthy, camouflaged panther than a grand elephant. This is not elephant country. While the size of potential deposits may be more modest, say in the range of 1 million ounces or so, the old-timers have indicated such deposits are rich and there exists potential for discovery of numerous such high-grade deposits in close proximity.

We are employing many of the tools they left behind - mine cross sections, assessments of historic mines and gold showings, and geological reports, including a compelling summary detailing why a sizable fortune was invested in the 1920s to develop the San Albino Gold Deposit. And like them we have focused on a small area - covering only 8 square kilometres within the 87 square kilometre property. This area is the foundation upon which we are building, and the San Albino Gold Deposit is our cornerstone.




Golden Reign's flagship ***San Albino-Murra Property*** has:

- District-scale gold system potential
  - ⇒ 3km wide, 25km long **Corona de Oro Gold Belt**
- 30 priority targets currently being tested by trenching
- 25 year exploration & exploitation license
- Permitting in place for an additional
  - ⇒ 25,000 metres of trenching
  - ⇒ 150,000 metres of drilling
- Numerous old mines and workings throughout
  - ⇒ over 170 quartz vein structures
  - ⇒ 112 adits
  - ⇒ 148 mine dumps
  - ⇒ 354 exploration pits
- Existing infrastructure
  - ⇒ Good road access, power, water, skilled labour
- Excellent community relations established

## SAN ALBINO GOLD DEPOSIT

In late 2012, Golden Reign delivered its first resource estimate on the San Albino Gold Deposit, located in the Southern District of its flagship San Albino-Murra Gold Property.

Off the back of our highly successful 2010 initial drilling, we planned a 6,000 to 10,000 metre drill program for 2011/2012 - which quickly morphed into a much more significant program when we intersected a 12.0 metre interval of the Arras vein that was running 16.37 g/t gold and 23.5 g/t silver….underlying the San Albino vein. In all, over 36,000 metres were cored.

Significantly, the San Albino Gold Deposit:

- is a combination open-pittable / underground resource
- open-pit resources are > 8 g/t gold
- is shallow, within approximately 300 metres of surface
- has a current strike length of 850 metres and down dip extension of 925 metres
- consists of three high-grade vein systems, with an average true width of 2.6 metres
- is open at depth and along strike in both directions
- has excellent potential for expansion, with an Exploration Target estimated at 5 to 10 million tonnes at a grade between 6 to 10 grams gold equivalent per tonne

### *HIGH GRADE INITIAL RESOURCE…..delineated after only 15 months of drilling*

**San Albino Gold Deposit** - NI 43-101 Resource Estimate (November 20, 2012)

| | Cut-off grade (g/t AuEq) | Classification | Tonnes | Au (g/t) | Au ounces | Ag (g/t) | Ag ounces | AuEq (g/t) | AuEq ounces |
|---|---|---|---|---|---|---|---|---|---|
| **Open-pittable** | 0.5 | Indicated | 247,000 | 9.00 | 71,000 | 10.8 | 86,000 | 9.18 | 73,000 |
| | 0.5 | Inferred | 682,000 | 8.25 | 181,000 | 10.7 | 234,000 | 8.42 | 185,000 |
| **Underground** | 1.5 | Indicated | 101,000 | 6.59 | 21,000 | 9.7 | 31,000 | 6.76 | 22,000 |
| | 1.5 | Inferred | 2,689,000 | 7.00 | 605,000 | 10.6 | 912,000 | 7.17 | 620,000 |

Mineral Resource Estimate Notes and Parameters:

1. Mineral Resource estimates are based upon an October 31, 2012 two year trailing average gold price of US$1,592 per ounce, a 95% recovery rate, bulk density of 2.8 t/m$^3$, open-pit mining costs of US$3 per tonne, pit slopes of 45 degrees, underground mining costs of US$48 per tonne, milling costs of US$20 per tonne, and general and administrative costs of US$5 per tonne;
2. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves;
3. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues, although the Company is not aware of any such issues;
4. The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred resources as an Indicated or Measured mineral resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured mineral resource category.
5. Gold Equivalent was calculated on the basis of 1 gram gold = 60 grams silver.

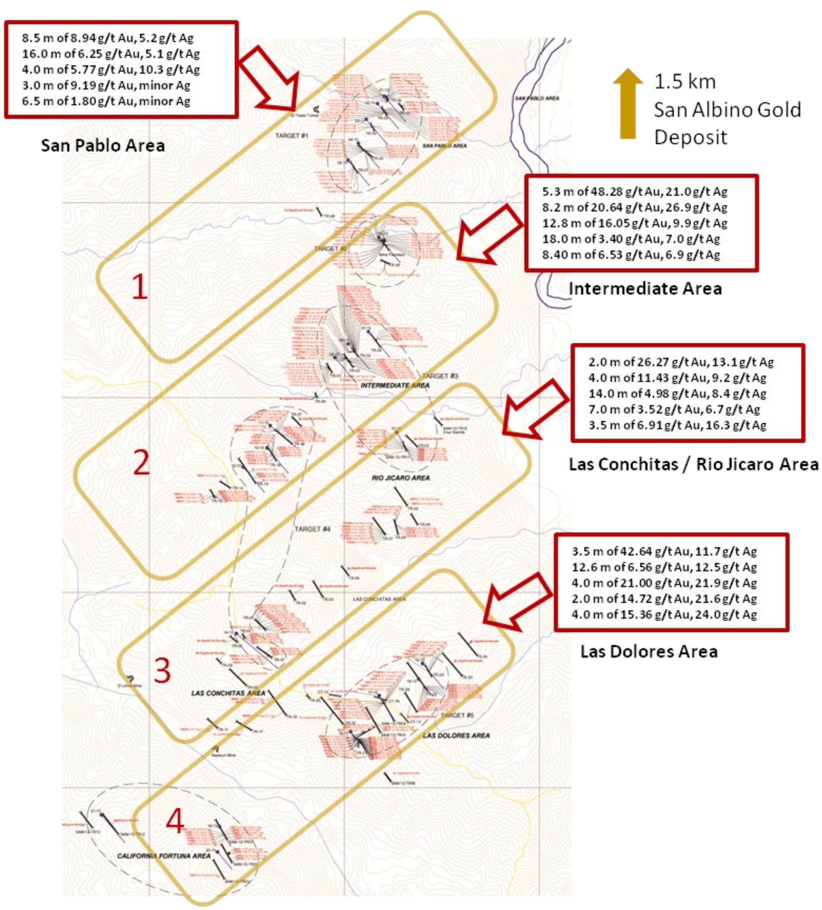
# *Our Strategy*

## *1. Growth Through Discovery*

**Our objective from Day 1 - to discover multi-million ounce intrusive related gold deposits**

- the more advanced Southern District was and remains our top priority and focus
  - √ ability to add more ounces quickly
  - √ historical information provides an exploration advantage, stacking the deck for success
  - √ extra year of trenching in 2011 equates to better geological understanding and more advanced targets
- there are abundant exploration targets throughout the entire 13,800 hectare (138 sqkm) land holdings
  - √ we discover mineralization and/or old workings virtually every time we ‘scratch the surface’
- high-grade mineralization = potential higher margins and higher returns

In 2011, we commenced a major trenching program approximately 1.5 kilometres south of the San Albino Gold Deposit in Las Conchitas. Covering roughly 2.5 square kilometres, this highly prospective ground is a priority target - second only to the San Albino Gold Deposit.



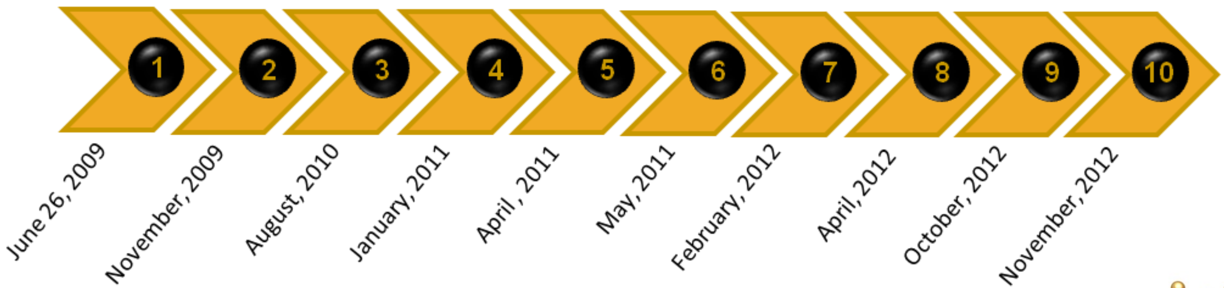

- Open-pittable targets outlined by trenching
- 1.5 km south of San Albino Gold Deposit
- Similar style of mineralization to San Albino Gold Deposit - gold is found in both quartz veins and country rock
- 4 mineralized zones ranging from 300 to 1,500 metres in length, open along strike in both directions and at depth
- 11 exploration pits excavated during 2012
- 40 drill locations already identified
- Potential to utilize <u>one</u> centralized processing plant for entire Southern District

## *OUR STRATEGY*

## *2. DELIVERING RESULTS.....QUICKLY*

**We recognize the time value of money invested and strive to produce faster, better results for our investors**

With an aggressive pace of exploration and corporate development, we have marked several *Significant Milestones*:




1. Initial option agreement signed on flagship San Albino-Murra Gold Property
2. Exploration work commences 36 months ago
3. Initial limited drill program of 1,500 metres to test for existence of mineralized structures at San Albino Gold Deposit, completed October 2010
4. Major non-brokered financing oversubscribed at $7.5 million provides funding needed to move towards initial resource delineation
5. Major trenching program (1.5 kms) begins in Southern District of San Albino-Murra Property exposing several highly prospective areas of near surface high-grade mineralization
6. Definition drill program to extend mineralization outlined by 2010 drill program, refine geological model and obtain data sufficient to calculate an initial NI 43-101 compliant mineral resource estimate at San Albino Gold Deposit begins
7. Acquire El Jicaro Gold Concession for US$120,000, increase land package from 87 km$^2$ to 138 km$^2$
8. Earn-in initial 80% interest in and to the San Albino-Murra Gold Property approximately 1.5 years in advance
9. Acquire remaining 20% interest in and to the San Albino-Murra Gold Property
10. Announce initial NI 43-101 compliant resource estimate for the San Albino Gold Deposit of just under 1M ounces gold

# HOW DO WE MEASURE UP?

World-wide there are **517** gold deposits of 1M ounces, > 1 g/t **Gold**

But only **85** gold deposits of 1M ounces, >7 g/t **Gold**

And of those…..

- ✓ 31 are in production/pre-production
- ✓ 42 are at Reserves development/Feasibility stage
- ✓ 34% of these gold deposits are mines
- ✓ 86% are at an advanced pre-feasibility / feasibility stage
- ✓ **only 3 of these 85 gold deposits are in exploration stage**

## A PROPERTY RIFE WITH HISTORY

Gold-quartz ore was first discovered at San Albino in 1790 by the Spaniards. A large area of "manto"— the name given in Central America to a vein lying almost wholly at surface level either exposed to air or covered in loose soil and rock — was worked by the Spaniards as an open-pit mine in the early years of their occupation. Underground mining followed, but the accumulation of water prevented these early operators from attaining any depth and ultimately stopped work. From 1885 to 1920, four different operators controlled and worked the property producing an aggregate 32,000 tons at between US$7.00 to 12.00 per ton with an estimated value of US$332,000. With the price of gold at US$20.67 per ounce this translates to roughly 16,062 ounces of gold.

Under the stewardship of Charles Butters, the San Albino mine recorded an average daily production of **10 tons at 31 g/t gold** during a brief interval before revolutionary activity halted mining. Charles Butters, a renowned metallurgist who pioneered the cyanide process for mineral separation and opened several gold mines worldwide, held the property from 1922 until 1927, when it was seized by Augusto Sandino, leader of the Nicaraguan revolution. Over the intervening 80+ years, the mine has never been reopened for production.

- ⇒ *Charles Butters spent roughly US$750,000 on developing the San Albino Mine in the 1920's and built a modern mill at site, which was burned down in the 1980's.*
- ⇒ *Augusto Sandino assumed control of the property from Butters on July 1, 1927 and launched the Nicaraguan revolution from San Albino mine, utilizing dynamite and gold coins minted at the mine.*
- ⇒ *In 1934, Charles H. Janin optioned the property, reopened caved tunnels at the San Albino and verified the data and ore estimates of Charles Butters.*
- ⇒ *Canadian mining legend Thayer Lindsley, described as the greatest mine finder of all time, took a specific interest in the San Albino property, compiling a library of information which Golden Reign has acquired. Lindsley was the founder of mining powerhouses such as Falconbridge Ltd., Ventures Ltd. and Frobisher.*

*Charles Butters*

Butters, an American engineer, metallurgist and self-proclaimed capitalist on why he bought San Albino:

* I sought locations where a small amount of capital would yield the largest return
* Good values, plenty of ore
* Timber, water power, cheap labor, good climate

In a summary report, Butters writes that he has developed — over a distance of 600 to 700 feet—only 1 of 12 known veins at San Albino.

In that same report, Butters reports that "...Aguja de Arras was the mine that originally made the district." It was mined for high-grade ore running over 2 ounces.

*Extracts from "Summary, Why I Bought San Albino" by Charles Butters. A copy of which was acquired from the archived files of Charles H. Janin held at the Huntington Library in San Marino, California.*


**MANAGEMENT DISCUSSION AND ANALYSIS**
**For the Year Ended April 30, 2012**

*This Management Discussion and Analysis ("MD&A") of Golden Reign Resources Ltd. (the "Company" or "Golden Reign") provides analysis of the Company's financial results for the year ended April 30, 2012. The following information should be read in conjunction with the accompanying audited consolidated financial statements and the notes thereto for the year ended April 30, 2012, which are available on SEDAR at www.sedar.com. This MD&A is current as at August 27, 2012, the date of preparation.*

*The April 30, 2012 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of annual financial statements, including IFRS 1 "First-Time Adoption of IFRS". For comparative purposes, all financial statement amounts related to the year ended April 30, 2012 have been restated in accordance with IFRS. All other periods remain unchanged from the numbers originally reported under Canadian generally accepted accounting principles ("Canadian GAAP"). All amounts are expressed in Canadian dollars, unless otherwise stated.*

***Forward-Looking Statements***
*Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements.*

***Highlights - San Albino-Murra Property, Nicaragua***

On June 29, 2009, the Company announced the signing of an option agreement to acquire an 80% interest in the San Albino-Murra Mining Concession (the "Property") located in Nicaragua.

⇒ On May 7, 2012, Golden Reign announced that it had completed the earn-in of its 80% interest in the Property approximately 1.5 years ahead of schedule, marking a very significant milestone for the Company.

⇒ The Corona del Oro Gold Belt is a structural corridor approximately 3 kilometres wide by 15 kilometres long that stretches from the southern to the north-eastern boundaries of the Property. In addition to the 2-square kilometre San Albino Mine area, the corridor hosts over 170 quartz vein structures, 112 tunnels, 148 mine dumps and 354 exploration pits.

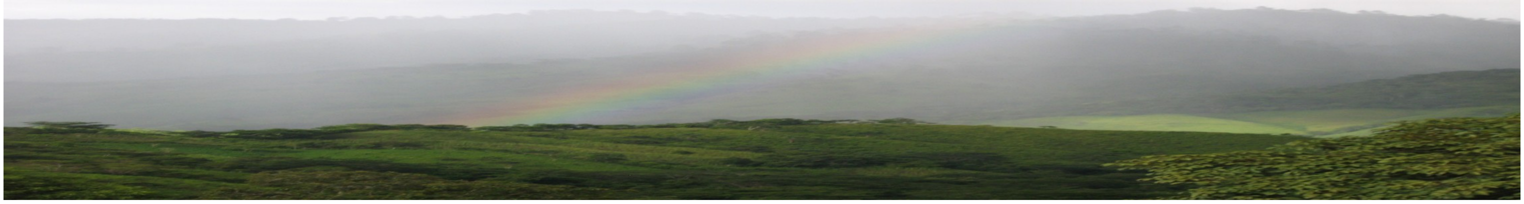
⇒ A NI 43-101 compliant maiden resource calculation at San Albino Mine area is expected in Q3 of 2013.

⇒ High-grade mineralization both near surface and at depth has been intersected by drilling at the San Albino Mine area. Over 30,000 metres of drilling has been completed and at least 4 parallel mineralized veins intercepted.

⇒ Drilling and trenching indicate the strong potential for a high-grade combined open-pittable/underground resource at the San Albino Mine area. At present, the potential open-pittable portion of the San Albino zone has a strike length of 400 metres and a down-dip extension of 300 metres. Mineralization, which follows the slope of the San Albino hill, has been intersected from surface to a depth of up to 50 metres.

⇒ A major trenching program at Las Conchitas, approximately 2 kilometres south of San Albino/Arras, led to new discoveries including highly mineralized zones bearing quartz veins ranging from 1 to 8 metres in true thickness, and has outlined excellent targets for drill testing. Preliminary drilling, conducted in October 2011, returned some excellent high-grade intercepts of the Cruz vein.

⇒ High-grade early exploration samples have been returned at other Southern District prospects and from the Northern (Murra) District.



***BUSINESS OVERVIEW***

Golden Reign was incorporated on April 1, 2004 under the laws of the Yukon Territory and continued into British Columbia under the *British Columbia Corporations Act*. Common shares of the Company are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "GRR".

Since June 2009, Golden Reign has been focused on its operation in Nicaragua. Presently, it has a 138 square kilometre land package comprised of an 80% interest in the San Albino-Murra Property and a 100% interest in the El Jicaro Concession.

***San Albino-Murra Property, Nicaragua***

The 8,700 hectare San Albino-Murra Property, held under a 25 year mining license expiring February 3, 2027, has a long history of exploration and mining. There are several old mines and workings within the property boundaries. The San Albino mine, a historical small-scale gold producer, commenced production in the early 1920's and operated on and off until approximately 1940, reportedly processing 10 tons per day of 1 oz/t gold material.

Pursuant to the terms of the agreement, the Company made aggregate cash payments of US$450,000, incurred aggregate exploration expenditures of US$5,000,000 on the Property and issued a total of 4,000,000 common shares from its treasury to earn its 80% interest in the Property. The optionor has elected to retain its 20% interest and continue under a participating joint-venture agreement.

The San Albino-Murra Property meets the key criteria identified by management for prospective projects:

- it is an advanced exploration project, with historical workings and production;
- it is located in a politically stable environment;
- existing infrastructure includes access roads, water, power and readily available timber;
- it has an all-year exploration/development season;
- the acquisition cost, including share dilution, was reasonable; and
- a quality partnership with the optionor exists.

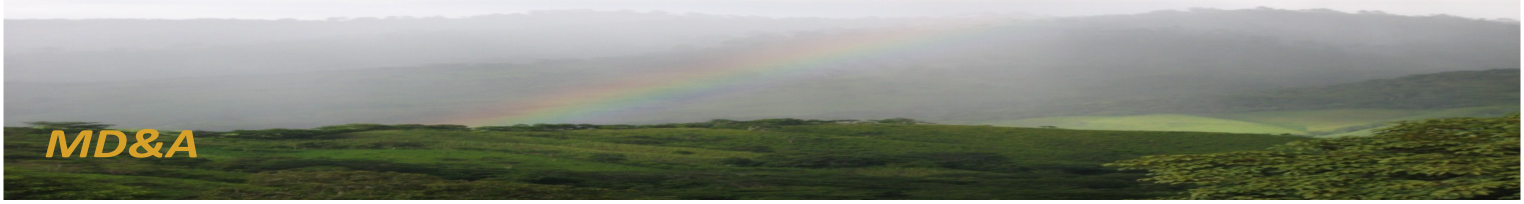
***El Jicaro Concession, Nicaragua***

In early February 2012, the Company announced the acquisition of the El Jicaro Concession (the "Concession") at a cost of USD$120,000 (CAD$119,472). The Concession license, valid for a period of twenty-five years until September 28, 2033, was acquired from a third party, individual Nicaraguan title holder.

The El Jicaro Concession encompasses the southwest extension of the mineralized structures identified on the San Albino-Murra Property. The Concession covers an area of 5,071 hectares (51 $km^2$), nearly doubling the Company's current land package to an aggregate 13,771 hectares (138 $km^2$). Several good exploration targets have been outlined on the property. A mapping and prospecting program currently underway is expected to result in the definition of additional prospects.

***Nicaragua***

Although it boasts a long history of gold production, Nicaragua is under-explored – but is now attracting international interest. A democratic republic since 1996, Nicaragua has a modern mining law, fair tax regime and strong foreign investment law. Bordered by Honduras to the north and Costa Rica to the south, it is easily accessible and has skilled, available labour.




**Overview**

Golden Reign has successfully outlined a gold belt - the Corona del Oro Gold Belt. It is a structural corridor approximately 3 kilometres wide by 23 kilometres long which spans the entirety of the Company's 138 square kilometre land package. Offering potential for a district-scale gold system, the belt stretches from the El Jicaro Concession in the south, through the San Albino-Murra Property to its northeast corner, and hosts more than 120 veins, 100 tunnels and 35 old mines.

Although the San Albino-Murra Property is well known and the San Albino Mine has a long history of small scale mining, the Property is under-explored. Other than limited trenching and drilling around the Arras Mine in the mid-2000's, there has been no systematic exploration using modern exploration techniques prior to Golden Reign's activities.

The Company started by defining three separate blocks, or districts of the Property: Southern (San Albino) District, Central District and Northern (Murra) District.

Following successful exploration and drilling programs in 2009 and 2010, Golden Reign commenced a Phase II drilling program at the San Albino Mine area which was completed in mid-2012. The 2011/2012 definition drill program extended the mineralized area outlined in 2010, refined the geological model, and produced data that is currently being used to calculate a NI 43-101 compliant mineral resource for the San Albino Mine area.

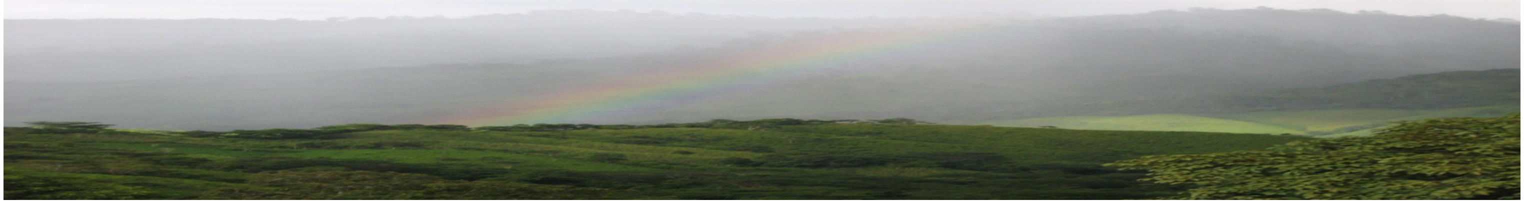
Fiscal 2012 was a very busy year for Golden Reign - one which management believes will be pivotal for the Company's continued growth and on-going exploration success. Golden Reign continued to work diligently to unlock the value of the San Albino-Murra Property, running multiple programs in tandem – drilling, trenching, sampling, mapping and prospecting. After less than 1.5 years of drilling, Golden Reign anticipates that its maiden resource calculation for the San Albino Mine area will be completed in Q3 2012.

**Current operations**

Since the commencement of the first phase field program in October 2009, Golden Reign has focused its efforts on the Southern (San Albino) District, which covers approximately 24 square kilometres of the 87 square kilometre property. The San Albino Mine area, covering 2 square kilometres, is the most advanced prospect and the Company's primary target.

A NI 43-101 compliant technical report on the Company's maiden resource is currently being compiled by P&E Mining Consultants Inc. of Brampton Ontario. The San Albino Mine area hosts at least two highly mineralized zones – San Albino and Arras – which are situated roughly 400 metres apart. The Arras vein has been traced along a strike length of 900 metres. In 2010, the San Albino zone was extended from roughly 70 metres to 300 metres in strike length by the initial drill program. Additional drilling led to the discovery of three new mineralized zones, greatly expanding the size potential of such a deposit. The 2011/2012 drill program has established a 600 metre strike length on the San Albino zone. All gold zones remain open along strike and at depth.

Similarly, the Northern and Central District, along with the remainder of the Southern District and new El Jicaro Concession, show great potential. A tremendous number of historical workings and showings – including mines, mine dumps and adits dating back to the Spanish explorers in the late 1700's - have been located, sampled and merit additional review.



## Completion of 80% Earn-In

On May 7, 2012, the Company announced that it had earned an undivided 80% interest in the San Albino-Murra mining concession in Nicaragua. The earn-in was completed approximately 1.5 years ahead of schedule, marking a significant milestone for the Company. At April 30, 2012, the Company had expended $12,707,116 with respect to the mineral property, comprised of option payments totaling $2,912,377 and deferred exploration costs of $9,794,739. A further amount of $143,477 (April 30, 2011 - $97,820) was recorded as exploration advances in respect drilling costs for fiscal 2012.

## 2011/2012 Program

After several very encouraging early drill holes, the Company redesigned and significantly expanded the 2011/2012 Phase 2 diamond drill program – more than doubling the scope of the program. Initially planned to consist of 40 to 60 holes of definition drilling, totalling between 6,000 to 10,000 metres across a series of five fences of drill holes, the Company program was expanded to approximately 30,000 metres cored across a series of six fences of drill holes.

The San Albino Mine area host potential for a combined open-pittable/underground resource. Near-surface gold mineralization exposed by trenching and drilling indicates the strong potential for a high-grade open-pittable resource at the San Albino Mine area. At present, the potential open-pittable portion of the San Albino zone has a strike length of 400 metres and a down-dip extension of 300 metres. Mineralization, which follows the slope of the San Albino hill, has been intersected from surface to a depth of up to 50 metres. Underground resources were drill tested at depth.

Multiple, parallel mineralized zones were encountered: Arras, San Albino, El Jobo, Naranjo. ***Significant estimated true width intersections include:***

**Arras Zone**

| Drill Hole | From (metres) | To (metres) | Width (metres) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|
| SA 11-18 | 247.50 | 259.50 | 12.00 | 16.37 | 23.5 |
| SA 11-24 | 239.50 | 247.50 | 8.00 | 2.26 | 11.9 |
| SA 11-20 | 252.60 | 258.50 | 7.00 | 12.28 | 27.9 |
| SA 11-42 | 217.00 | 219.00 | 2.00 | 85.86 | 35.1 |
| SA 10-06 | 247.50 | 251.50 | 4.00 | 13.67 | 31.4 |
| SA 11-18 | 257.00 | 259.50 | 2.50 | 14.34 | 21.7 |
| SA 11-41 | 217.00 | 219.00 | 2.00 | 85.86 | 35.1 |
| SA 11-23 | 219.70 | 221.50 | 1.80 | 22.75 | 37.6 |
| SA 11-22 | 244.00 | 245.50 | 1.50 | 11.52 | 25.2 |
| AR 12-36 | 222.00 | 223.00 | 1.00 | 212.69 | 204.2 |

**Naranjo Zone**

| Drill Hole | From (metres) | To (metres) | Width (metres) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|
| SA 11-29 | 175.00 | 177.50 | 2.50 | 21.60 | 17.4 |
| SA 11-27 | 138.50 | 140.50 | 2.00 | 15.08 | 15.3 |

**San Albino Zone**

| Drill Hole | From (metres) | To (metres) | Width (metres) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|
| AR 11-24 | 6.00 | 16.50 | 10.50 | 5.02 | 8.0 |
| SA 12-92 | 34.00 | 43.30 | 9.30 | 11.01 | 29.8 |
| SA 11-12 | 49.00 | 56.00 | 7.00 | 8.40 | 14.8 |
| SA 12-49 | 58.00 | 64.50 | 6.50 | 13.45 | 16.6 |
| SA 12-48 | 64.00 | 70.00 | 6.00 | 9.07 | 14.3 |
| SA 12-57 | 19.00 | 25.00 | 6.00 | 6.66 | 10.0 |
| SA 12-46 | 69.00 | 74.50 | 5.50 | 20.70 | 16.6 |
| SA 12-91 | 29.00 | 33.50 | 4.50 | 12.65 | 24.9 |
| SA 12-59 | 33.00 | 37.00 | 4.00 | 20.44 | 42.7 |
| SA 12-90 | 26.00 | 30.00 | 4.00 | 13.20 | 31.8 |
| SA 10-01 | 29.00 | 33.00 | 4.00 | 7.38 | 144.4 |
| SA 10-09 | 38.90 | 43.73 | 3.80 | 24.98 | 17.7 |
| SA 11-23 | 84.50 | 88.00 | 3.50 | 11.65 | 16.5 |
| SA 11-24 | 59.00 | 62.50 | 3.50 | 13.20 | 21.1 |
| SA 10-06 | 48.20 | 51.30 | 3.10 | 22.40 | 23.1 |
| SA 10-03 | 45.12 | 47.25 | 2.10 | 10.75 | 17.5 |
| SA 10-02 | 54.00 | 56.00 | 2.00 | 29.32 | 17.2 |
| SA 11-25 | 107.00 | 109.00 | 2.00 | 14.75 | 25.1 |

In October 2011, a third drill rig was mobilized to the Las Conchitas area of the Southern (San Albino) District, approximately 2.5 kilometres south of San Albino/Arras prior to being moved to the San Albino Mine area. The drill program was designed to follow up an extensive 2011 trenching program that outlined numerous drill targets and successfully exposed a system of sub-parallel, gold-bearing quartz veins ranging from 1 to 8 metres in true width. Trenching was oriented perpendicular to the mineralized zones, which have been traced at surface over a distance of two kilometres and remain open in at least two directions and at depth. In all, four newly discovered, highly prospective mineralized zones were identified.

In 2011, trench TR11-1 exposed a gold-bearing quartz vein, Cruz 1, which returned:

- 2.0 metres of 26.27 g/t gold and 17.4 g/t silver; and
- 5.0 metres of 5.21 g/t gold and 7.3 g/t silver; and
- 2.6 metres of 3.70 g/t gold and 5.9 g/t silver.

Initial drilling at Las Conchitas tested the down-dip extension of the Cruz 1 vein. *Highlights from drilling include:*

- LC 11-01 – 3.0 metres of 62.96 g/t gold and 61.7 g/t silver
- LC 11-02 – 3.0 metres of 12.01 g/t gold and 13.1 g/t silver
  including 1.2 metres of 29.80 g/t gold and 31.7 g/t silver
- LC 11-03 – 2.5 metres of 14.96 g/t gold and 25.4 g/t silver
  including 1.0 metre of 36.53 g/t gold and 60.6 g/t silver
- LC 11-04 – 1.5 metres of 9.44 g/t gold and 17.3 g/t silver
  including 0.6 metres of 20.64 g/t gold and 37.0 g/t silver
- LC 11-05 – 5.0 metres of 8.63 g/t gold and 3.5 g/t silver
  including 1.0 metre of 35.70 g/t gold and 2.0 g/t silver

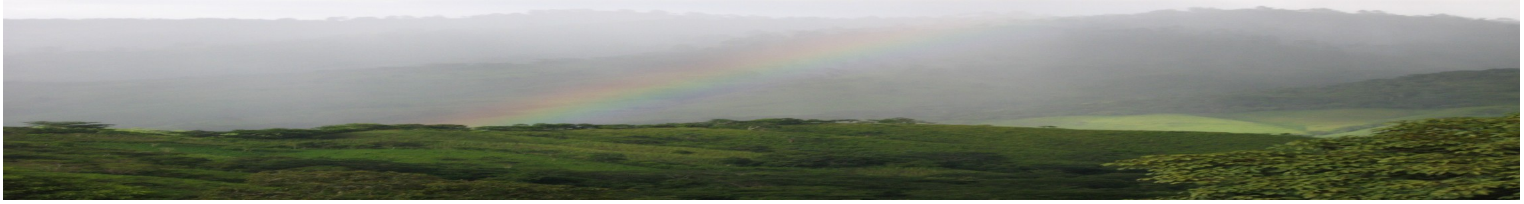

Las Conchitas hosts several significant, newly discovered gold bearing veins, with the Cruz 1 vein being the first to be tested by drilling. Golden Reign has confirmed a 400 metre down-dip extension of the Cruz 1 vein, a high-grade gold structure initially observed in trench TR 11-01. The first three drill holes, LC 11-01 through LC 11-03, were located approximately 150 metres from trench TR 11-01. LC 11-03 and LC 11-04 were located at a distance of approximately 250 metres from the first drill pad and 400 metres from trench TR 11-01.

The Cruz 1 vein was intersected in all five drill holes and demonstrated very good continuity of width and grade. The style of mineralization of the vein appears identical in each of the drill holes and is represented by bands of massive galena, sphalerite and arsenopyrite.

In addition, several other mineralized zones, similar in style of mineralization to the Cruz 1 vein, were intersected. The Cruz 2 zone, which was intersected in LC 11-02, LC 11-04 and LC 11-05, also demonstrates good continuity of width and grade:

- LC 11-02 – 0.5 metres of 4.17 g/t gold and 14.8 g/t silver
- LC 11-04 – 1.9 metres of 3.24 g/t gold and 6.0 g/t silver
  including 0.5 metres of 6.05 g/t gold and 14.3 g/t silver
- LC 11-05 – 1.0 metre of 6.49 g/t gold and 4.0 g/t silver

In both LC 11-04 and LC 11-05, four separate zones of mineralization were encountered.



**Trenching**

The California Vein-Las Dolores Mine area is the first of three highly prospective areas located in the southwest corner of the flagship Property to be tested by trenching. Two near-surface high-grade vein prospects – California and Las Dolores – were tested to a depth of approximately 1.5 metres. Highlights from trenching include:

- SAMTR-12-01 - 4.0 metres grading 21.00 g/t gold and 21.9 g/t silver
  and 2.0 metres grading 14.72 g/t gold and 21.6 g/t silver
  and 4.0 metres grading 15.36 g/t gold and 24.0 g/t silver
  - including 1.0 metre of 61.06 g/t gold and 94.0 g/t silver
- SAMTR-12-02 - 3.5 metres grading 42.64 g/t gold and 11.7 g/t silver
  and 4.0 metres grading 9.49 g/t gold and 3.3 g/t silver
  and 2.0 metres grading 7.27 g/t gold and 5.5 g/t silver
- SAMTR-12-04 - 12.6 metres grading 6.56 g/t gold and 12.5 g/t silver
  - including 4.6 metres of 16.02 g/t gold and 29.6 g/t silver

This zone now has a strike length of 750 metres and remains open in both directions and at depth. It extends southwest onto Golden Reign's recently acquired El Jicaro Concession.

California and Las Dolores represent the extension of structures first identified by trenching in 2011 and further outlined by a 2012 sampling program. Highlights from prior trenching and sampling include:

*Trenching*

TR-21 - 14.0 metres of 5.89 g/t gold and 11.8 g/t silver
including: 4.0 metres of 8.46 g/t gold and 21.2 g/t silver and
7.0 metres of 6.11 g/t gold and 9.8 g/t silver

*Sampling*

California vein 2.0 metres of 69.33 g/t gold and 47.8 g/t silver
comprised of: 1.0 metre of 137.35 g/t gold and 93.7 g/t silver and
1.0 metre of 1.30 g/t gold and 1.9 g/t silver

**Geological mapping and prospecting**

Geological mapping and prospecting of the Property is on-going. There was no historical data available for the Central District and limited information for both the Northern (Murra) District and newly acquired El Jicaro Concession. Known historical workings, mines and adits located throughout the Company's land package numbered just over 300 prior to the Company commencing significant, detailed mapping and sampling in early 2011. The number of historical showings now exceeds 1,000, many of which merit additional examination.

### Mineral Properties and Deferred Exploration Costs

For a comprehensive breakdown of mineral property costs and deferred exploration costs by property, please refer to Note 7 to the audited consolidated financial statements for the year ended April 30, 2012.

| | April 30, 2012 | April 30, 2011 |
|---|---|---|
| Mineral property costs | $ 2,912,377 | $ 552,395 |
| Deferred exploration costs | 9,794,739 | 2,117,243 |
| | $ 12,707,116 | $ 2,669,638 |

## RESULTS OF OPERATIONS

### Selected Annual Information

| Fiscal Year | 2012 | 2011 | 2010* |
|---|---|---|---|
| Net Sales | Nil | Nil | Nil |
| Net Loss | $ 1,848,096 | $ 1,310,381 | $ 339,790 |
| Comprehensive Loss | $ 1,802,517 | $ 1,507,600 | $ - |
| Basic and diluted loss per share | $ 0.03 | $ 0.03 | $ 0.01 |
| Total Assets | $ 14,682,822 | $ 10,133,803 | $ 1,443,616 |
| Total Long-term liabilities | Nil | Nil | Nil |
| Cash dividends per share, common | N/A | N/A | N/A |

*Amounts shown as calculated under Canadian GAAP

No cash dividends have been declared or paid since the date of incorporation and the Company has no present intention of paying dividends on its common shares. The Company anticipates that all available funds will be invested to finance the growth of its business.

The Company's recorded loss for the financial years ended April 30, 2012, 2011, and 2010 is comprised mainly of general and administrative expenses. The reported net loss for 2012, 2011, and 2010 includes share-based compensation expense of $1,100,133, $846,298 and $58,000, respectively.

### Summary of Quarterly Results

Selected financial information for each of the eight most recently completed quarters are as follows:

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Net Sales | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Net (loss) gain | $(1,886,540) | $(86,726) | $(85,851) | $211,021 | $ (738,509) | $(100,590) | $(382,624) | $(88,658) |
| Comprehensive (loss) gain | $(1,954,411) | $ 38,683 | $91,535 | $ 21,676 | $ (865,353) | $(114,937) | $(459,915) | $(67,395) |
| Basic and diluted loss per share | ($0.03) | $0.00 | $0.00 | $0.00 | ($0.02) | $0.00 | ($0.01) | $0.00 |

*Amounts shown as calculated under Canadian GAAP

Golden Reign is in an active growth stage. The overall increase in business activities and operations of the Company resulted in higher general and administrative costs during fiscal 2012.

**Three Months ended April 30, 2012**

The Company reported a net loss of $1,886,540 and a comprehensive loss of $1,954,411 for the three month period ended April 30, 2012, as compared to a net loss of $738,509 and comprehensive loss of $865,353 for the same period in the prior fiscal year. A total of $67,871 (2011- loss of $126,844) was recorded as a cumulative translation adjustment loss.

General and administrative expenses for the three months ended April 30, 2012 totaled $1,770,076 (2011-$684,475). Share-based compensation totaled $1,066,360 (2011-$547,798).

Wages and benefits were increased over the previous year, totaled $51,712 (2011-$33,058). Management fees were $25,500, consistent with the prior year period. Consulting fees of $21,000 (2011-$Nil) were paid for accounting services provided during the period.

Office and miscellaneous expenses totaled $40,480 (2011-$12,767) and included: office rent of $7,277; bank charges of $1,973; courier costs of $481; office expenses of $15,751; recovery of office insurance of $(812); and telecommunication costs of $3,074. Amortization was recorded at $36,049 (2011-$1,220).

Expenditure on travel and promotion totaled $19,265 (2011-$30,666) during the period. Costs paid during the quarter include: $495 (2011-$1,533) for website hosting and maintenance, $742 (2011-$887) for meals and entertainment, $15 (2011-$25) for email broadcasts and $6,837 (2011-$20,119) for news wire services. In the prior year, an amount of $4,788 was incurred in respect of the Company's 2011 Annual General Meeting of Shareholders. There were no similar costs incurred in the same period of fiscal 2012.

Professional fees totaled $15,000 (2011 - $19,727), which consists of legal fees of $Nil (2011 - $677) incurred in respect of general corporate matters and audit related fees and accruals of $15,000 (2011 – $19,500) recorded during the period.

Regulatory and listing fees for the quarter were $10,544 (2011 - $9,847) for general filing fees and transfer agency services rendered.

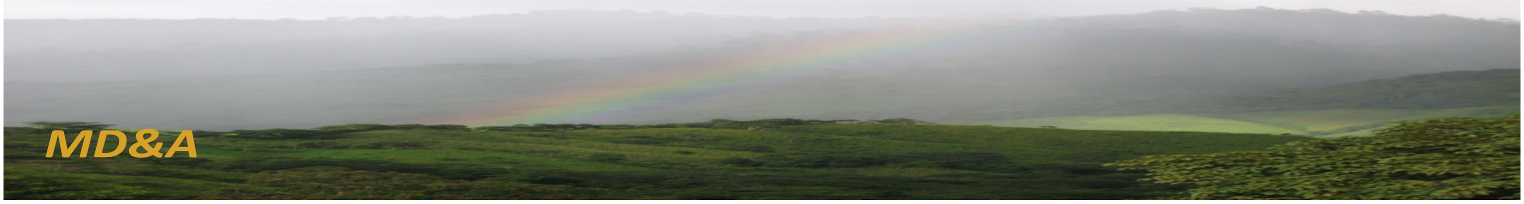
As the Company is an exploration stage company and does not generate any cash flow, it has no income other than interest income. The Company relies on equity financings for its working capital requirements and to fund its planned exploration activities. Interest income for the three months ended April 30, 2012 was $7,536 (2011 - $7,966).

**Twelve Months ended April 30, 2012**

The Company reported a net loss of $1,848,096 and a comprehensive loss of $1,802,517 for the twelve month period ended April 30, 2012, as compared to a net loss of $1,310,381 and comprehensive loss of $1,507,600 for the same period in the prior fiscal year. A total of $45,579 (2011- loss of $197,219) was recorded as a cumulative translation adjustment gain.

General and administrative expenses for the twelve months ended April 30, 2012 were $1,779,163 (2011-$1,258,512). Share-based compensation expense totaled $1,100,133 (2011-$846,298).

Wages and benefits increased over those of the previous year and totaled $155,683 (2011-$100,608). Management fees were $102,000, increasing by $16,000 over the prior year. Consulting fees of $33,680 (2011-$Nil) were paid for accounting services provided during the year.




Office and miscellaneous expenses totaled $120,222 (2011-$61,830) and included: office rent of $32,352 (2011-$35,577); bank charges of $6,412 (2011-$3,910); courier costs of $1,117 (2011-$956); office expenses of $41,590 (2011-$13,918); charitable donations of $3,141 (2011-$500); office insurance of $2,218 (2011-$2,499); and telecommunication costs of $8,656 (2011-$5,086). Amortization was recorded at $71,546 (2011-$14,700). The Company purchased Directors' and Officers' liability insurance at a cost of $12,000 (2011-$Nil) during the year.

Expenditure on travel and promotion totaled $83,821 (2011-$61,716). Costs paid include: $1,335 (2011-$2,682) for website hosting and maintenance, $3,357 (2011-$2,346) for meals and entertainment, $5,324 (2011-$3,726) for trade shows, $8,426 (2011-$4,764) for travel, $266 (2011-$99) for email broadcasts $33,945 (2011-$13,500) for promotion $7,749 (2011-$5,389) for expenses related to the Company's Annual General Meeting of Shareholders and $23,407 (2011-$28,523) for news wire services.

Legal fees of $3,922 (2011-$8,168) were incurred in respect of general corporate matters. Audit related fees and accruals of $84,561 (2011-$47,240) were recorded during the year.

Regulatory and listing fees for the period were $23,595 (2011-$29,210) for general filing fees and transfer agency services rendered.

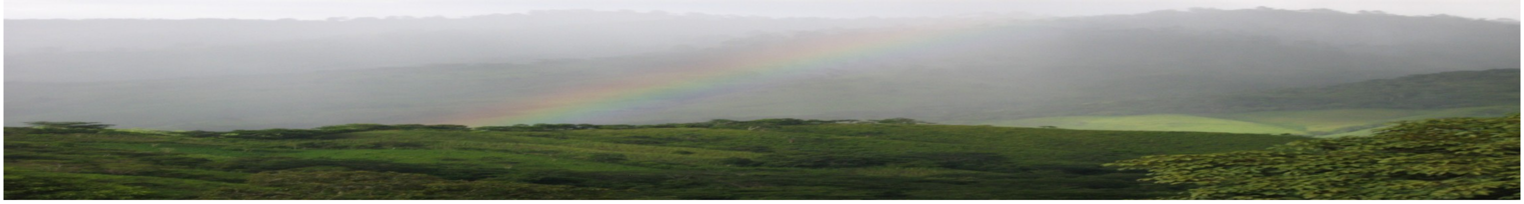
As the Company is an exploration stage company and does not generate any cash flow, it has no income other than interest income. The Company relies on equity financings for its working capital requirements and to fund its planned exploration activities. Interest income for the twelve months ended April 30, 2012 was $55,067 (2011-$10,131). The increase over the same period of the prior year being attributable to greater funds held on account.

**Trends**

The Company is in a growth pattern, actively exploring with a view to developing its San Albino-Murra Gold property in northern Nicaragua. After acquiring the option on the property in late June 2009, Golden Reign completed geological mapping and prospecting work throughout the property and an initial drill program at the San Albino Mine, the most advanced prospect. In early 2011, the Company undertook a major trenching program in the Southern District. In April 2011, a definition drilling program was initiated at the 2 square kilometre San Albino Mine area. Three drill rigs were active, as the Company worked towards defining a NI 43-101 compliant resource at San Albino Mine area. Outlays increased significantly during fiscal 2012. Volatile market conditions and a scarcity of available financing may affect the Company's planned level of activity and development in fiscal 2013.

The Company's general and administrative expenditures are related to the level of financing and exploration activities that are being conducted, which may in turn depend on the Company's exploration activities and prospects, as well as general market conditions relating to the availability of funding for exploration-stage resource companies. The Company does not acquire properties or conduct exploration work on its properties on a pre-determined basis. Thus, there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

Other than as herein disclosed, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect upon the Company's expenses, income from investing, profitability, liquidity or capital resources, of that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.



**Market Trends**

Gold prices have been on an uptrend for more than three years. During 2009, the gold price surged over US$1,000/oz, with an average price of US$972/oz. In 2011, the price of gold reached new heights, briefly exceeding US$1,900/oz prior to settling back at approximately US$1,600/oz. Gold is expected to be volatile, given the continued uncertain U.S. economic outlook and Europe's debt crisis.

Silver is currently trading around US$30/oz. There is an industrial demand for silver; however, it is the investment demand that has been driving prices higher, which is likely to continue.

(Sources include: www.kitco.com; agmetalminer.com; www.mineweb.net; www.lme.co.uk)

**RISK FACTORS**

The Company's principal activity of mineral exploration is considered to be very high risk. Companies involved in this industry are subject to many and varied types of risks, including but not limited to: environmental, commodity prices; political; and economic. Some of the more significant risks are:

✦ Substantial expenditures are required to explore for mineral reserves and the chances of identifying economical reserves are extremely low;

✦ Mineral resource amounts are estimates only and may be unreliable. The Company cannot be certain that any specified level of recovery of minerals from mineralized material will, in fact, be realized or that any of its mineral property interests or any other mineral deposit will ever qualify as a commercially mineable ore body that can be economically exploited. Material changes in the quantity of mineralization, grade or stripping ratio or mineral prices may affect the economic viability of the properties.

✦ The junior resource market where the Company raises funds is extremely volatile, companies are subject to high level of competition for the same pool of investment dollars, and there is no guarantee that the Company will be able to raise adequate funds in a timely manner to conduct its business;

✦ Although the Company has taken steps to verify title to its mineral property interests there is no guarantee that the mineral properties will not be subject to title disputes or undetected defects; and

✦ The Company is subject to laws and regulations related to environmental matters, including provisions for reclamation, discharge of hazardous material and other matters. The Company conducts its exploration activities in compliance with applicable environmental legislation and is not aware of any existing environmental problems related to its mineral property interests that may be the cause of material liability to the Company.

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described above and the other information filed with the Canadian securities regulators before investing in the Company's common shares. The risks described are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of these risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose all of their investment.

Additionally, turbulent world markets, volatile stock prices, scarcity of capital and fluctuating commodity prices are clear indicators that the economic cycle is currently in a declining phase.

## LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2012, the Company's primary capital asset was its investment in exploration and evaluation assets of $12,707,116 (April 30, 2011 - $2,669,638).

It held cash of $1,346,557 (April 30, 2011 - $7,167,471) and had working capital of $688,813 (April 30, 2011 - $7,075,838). During the year, proceeds of $2,138,834 were received on the exercise of share options and share purchase warrants.

During fiscal 2012, the Company acquired equipment, primarily for its Nicaraguan operations, at a cost of $315,461 (2011-$137,045). The Company experienced cash outflows of $598,417 (2011- $368,721) from operating activities. Investing activities used cash of $7,360,709 (2011 - $1,727,455). Financing activities realized positive cash flows of $2,136,695 (2011 - $8,825,747). Overall, cash decreased by $5,822,431, as compared to an increase of $6,759,571 for the prior fiscal year.

Subsequent to April 30, 2012, the Company raised gross proceeds of $3.16 million upon completion of a private placement comprised of 4,711,640 units priced at $0.67 per unit. Further financing will be required to progress the flagship San Albino-Murra Property and the El Jicaro Concession. The Company's continuance as a going concern in the future will depend upon its ability to obtain adequate financing.

In addition, the Company received gross proceeds of $631,231 upon the exercise of 2,143,425 share purchase warrants and 1,500 share options priced between $0.25 and $0.75. A further $1.8 million may be realized upon the exercise of 3.3 million stock options and 1.3 million warrants currently outstanding, all of which are in-the-money at present. There are no assurances that these options and warrants will be exercised.

The Company does not derive any revenues from operations and does not expect to generate any revenues from operations in the foreseeable future. The Company has no material income from operations.

The Company's financial performance is dependent upon many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production are difficult to predict. Changes in events could materially affect the financial performance of the Company.

The Company's mineral exploration activities have provided the Company with no sources of income and a history of losses and deficit positions. However, given the nature of its business, the results of operations as reflected in the net losses and losses per share do not provide meaningful interpretation of the Company's performance and valuation.

The Company is dependent on raising funds by the issuance of shares or disposing of interests it has in mineral properties in order to finance further acquisitions, undertake exploration and development activities on mineral properties and meet general and administrative expenses in the long term.

There is no assurance that additional funding will be available to allow the Company to fully explore its mineral properties. Failure to obtain financing could result in the delay or indefinite postponement of further exploration and the possible partial or total loss of the Company's interest in certain properties. The Company may be unable to meet its obligations under agreements to which it is a party and the Company may consequently have its interest in the properties subject to such agreements jeopardized.

The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, or the impact on the statement of operations and balance sheet classifications that would be necessary were the going concern assumption not appropriate. Such adjustments could be material.

Debt financing has not been used to fund the Company's property acquisitions and exploration activities. The Company has no current plans to use debt financing for such transactions and activities. The Company does not have "standby" credit facilities, or off-balance sheet arrangements and it does not use hedges or other financial derivatives.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not utilize off-balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

During the year ended April 30, 2012, the Company paid or accrued:

- management fees of $102,000 (2011 - $86,000) to Kim Evans, a director and officer of the Company; and,
- consulting fees of $78,000 (2011 - $62,000) to Zoran Pudar, an officer of the Company, for the provision of geological consulting services, which was capitalized to mineral properties.

Included in accounts payable and accrued liabilities is a total of $5,502 (2011 - $8,352) due to related parties for expenses. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

**CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES**

**Exploration and evaluation assets**

Exploration costs prior to obtaining legal title are expensed in the period in which they are incurred. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Properties that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units ("CGU") for the purpose of determining future mineral reserves and impairments.

Management reviews the capitalized costs on its exploration and evaluation assets at least annually to consider if there is an impairment value to take into consideration from current exploration results and management's assessment of the exploration results and of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. If a property is abandoned, or considered to have no future economic potential, the acquisition and accumulated exploration and evaluation costs are written off to profit or loss. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

Should a project be put into production, the costs of acquisition will be amortized over the life of the project based on estimated economic reserves.

**Foreign currency translation and transactions**

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the financial reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statements of profit or loss.

The financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as currency translation differences and taken into a separate component of equity.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses in accumulated other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses in accumulated other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

**Accounting Policy Developments**

***International Financial Reporting Standards ("IFRS")***

Effective January 1, 2011, Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is May 1, 2010. The year ended April 30, 2012 is the Company's first reporting year under IFRS. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Notes 2 and 16 to the Company's April 30, 2012 audited consolidated financial statements. These financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian generally accepted accounting principles to IFRS as set out in Note 16.

IFRS 1 provides for certain mandatory and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- *IFRS 2 "Share based payments"*
  The Company has elected not to apply IFRS 2 to share based payments granted and fully vested before the Company's date of transition to IFRS.
- *IFRS 3 "Business combinations"*
  This standard has not been applied to acquisitions of subsidiaries that occurred before May 1, 2010, the Company's transition date to IFRS. As such, there is no retrospective change in accounting for business combinations.
- *Cumulative foreign currency translation differences*
  The Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the transition date to IFRS. Any gains and losses on subsequent disposal of foreign operations will not be impacted by translation differences that arose prior to the date of transition.

The Company applied the following mandatory exception:

Estimates:
Hindsight is not used to create or revise estimates. In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of April 30, 2010 are consistent with its GAAP estimates for the same date.

The Company has not yet assessed the impact of the following standards or determined whether it will adopt these standards early:

- *IFRS 9 "Financial Instruments"*

  In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"), which becomes effective for annual periods beginning on or after January 1, 2015. IFRS 9 addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

  Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- *IFRS 10 "Consolidated Financial Statements"*

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

- *IFRS 11 "Joint Arrangements"*

  IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities— Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *IFRS 12 "Disclosure of Interests in Other Entities"*

  IFRS 12, Disclosure of Interest in Other Entities, is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *IFRS 13 Fair Value Measurement*
  IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

**OUTSTANDING SHARE DATA AS AT AUGUST 27, 2012:**

1. Authorized and issued share capital:

| Class | Par Value | Authorized | Issued Number |
|---|---|---|---|
| Common | No par value | Unlimited | 67,580,912 |

2. Summary of options outstanding:

| Security | Number | Number Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|---|
| Options | 50,000 | - | 0.80 | August 8, 2014 |
| Options | 50,000 | - | 1.00 | August 8, 2014 |
| Options | 375,000 | 375,000 | 0.20 | November 9, 2014 |
| Options | 914,000 | 914,000 | 0.25 | September 20, 2015 |
| Options | 400,000 | 400,000 | 0.41 | October 15, 2015 |
| Options | 150,000 | 150,000 | 0.50 | October 15, 2015 |
| Options | 1,450,000 | 1,450,000 | 0.56 | February 7, 2016 |
| Options | 2,000,000 | 2,000,000 | 1.10 | February 15, 2017 |
| Options | 1,365,000 | 1,365,000 | 0.80 | August 8, 2017 |
| | 6,754,000 | 6,654,000 | | |

3. Summary of warrants outstanding:

| Security | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| Warrants | 1,100,000 | 0.35 | September 29, 2012 |
| Warrants | 15,459,198 | 0.75 | January 18, 2013 |
| Warrants | 4,711,640 | 0.80 | July 12, 2014 |
| Warrants | 138,269 | 0.67 | July 12, 2014 |
| | 21,409,107 | | |

**OTHER INFORMATION**

For additional disclosures concerning the Company's general and administrative expenses and mineral properties, please refer to the audited consolidated financial statements for the year ended April 30, 2012, which are available on the Company's web site at www.goldenreign.com or on SEDAR at www.sedar.com.

**Internal Controls and Disclosure Controls over Financial Reporting**

On November 23, 2007, the British Columbia Securities Commission exempted Venture Issuers, such as the Company, from certifying disclosure controls and procedures, as well as internal controls over financial reporting as of December 31, 2007 and thereafter. The Company is now required to file basic certificates. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at April 30, 2012.

# CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Golden Reign Resources Ltd.

We have audited the accompanying consolidated financial statements of Golden Reign Resources Ltd., which comprise the consolidated statements of financial position as at April 30, 2012, April 30, 2011 and May 1, 2010 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended April 30, 2012 and April 30, 2011, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Golden Reign Resources Ltd. as at April 30, 2012, April 30, 2011 and May 1, 2010 and its financial performance and its cash flows for the years ended April 30, 2012 and April 30, 2011 in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada — Chartered Accountants

August 27, 2012

NEXIA INTERNATIONAL

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

# Consolidated Statements of Financial Position

*Expressed in Canadian Dollars*

| As at | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| | | (Note 16) | (Note 16) |
| **ASSETS** | | | |
| **Current** | | | |
| Cash (Note 3) | $ 1,346,557 | $ 7,167,471 | $ 437,900 |
| Receivables (Note 4) | 71,787 | 48,452 | 10,137 |
| Prepaid expenses | 21,096 | 5,826 | 5,350 |
| **Total current assets** | 1,439,440 | 7,221,749 | 453,387 |
| **Equipment** (Note 5) | 392,789 | 144,596 | 29,518 |
| **Exploration advances** (Note 6) | 143,477 | 97,820 | - |
| **Exploration and evaluation assets** (Note 7) | 12,707,116 | 2,669,638 | 960,711 |
| **TOTAL ASSETS** | **$ 14,682,822** | **$ 10,133,803** | **$ 1,443,616** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities (Note 8) | $ 750,627 | $ 145,911 | $ 60,069 |
| **Deferred tax liability** (Note 12) | 186,000 | 62,000 | - |
| **Total liabilities** | 936,627 | 207,911 | 60,069 |
| **Shareholders' equity** | | | |
| Share capital (Note 9) | 18,629,397 | 14,120,827 | 5,116,055 |
| Reserves - share based (Note 9) | 3,371,366 | 2,257,116 | 1,211,943 |
| Reserves - translation adjustment | (151,640) | (197,219) | - |
| Deficit | (8,102,928) | (6,254,832) | (4,944,451) |
| **Total shareholders' equity** | 13,746,195 | 9,925,892 | 1,383,547 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 14,682,822** | **$ 10,133,803** | **$ 1,443,616** |

**Corporate information and going concern (Note 1)**
**Subsequent events (Note 17)**

**On behalf of the Board:**

*"Kim Evans"* Director *"Bryce Porter"* Director

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

# Consolidated Statements Loss

*Expressed in Canadian Dollars*

| | For the year ended April 30, 2012 | April 30, 2011 (Note 16) |
|---|---|---|
| **OPERATING EXPENSES** | | |
| Consulting fees | $ 33,680 | $ - |
| Depreciation | 71,546 | 14,700 |
| Management fees | 102,000 | 86,000 |
| Office and miscellaneous | 120,222 | 61,830 |
| Professional fees | 88,483 | 55,408 |
| Regulatory and listing fees | 23,595 | 29,210 |
| Share-based compensation (Note 9) | 1,100,133 | 846,298 |
| Travel and promotion | 83,821 | 64,458 |
| Wages and benefits | 155,683 | 100,608 |
| **OPERATING LOSS** | **(1,779,163)** | **(1,258,512)** |
| Interest income | 55,067 | 10,131 |
| **LOSS BEFORE INCOME TAXES** | **(1,724,096)** | **(1,248,381)** |
| Deferred tax expense (Note 12) | (124,000) | (62,000) |
| **LOSS FOR THE YEAR** | **$ (1,848,096)** | **$ (1,310,381)** |
| **Basic and diluted loss per common share** | $ (0.03) | $ (0.03) |
| **Weighted average number of common shares outstanding** | 57,367,572 | 39,668,424 |

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

# Consolidated Statements of Comprehensive Loss

*Expressed in Canadian Dollars*

| | For the year ended | |
|---|---|---|
| | April 30, 2012 | April 30, 2011 |
| | | (Note 16) |
| **Loss for the year** | **$ (1,848,096)** | **$ (1,310,381)** |
| **Other comprehensive gain (loss)** | | |
| Currency translation difference | 45,579 | (197,219) |
| **Other comprehensive gain (loss) for the year** | 45,579 | (197,219) |
| **Comprehensive loss for the year** | **$ (1,802,517)** | **$ (1,507,600)** |

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

# *Consolidated Statements of Changes in Equity*

*Expressed in Canadian Dollars*

| | Number of shares | Share capital | Reserves - Share based | Reserves-translation adjust-ment | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance – May 1, 2010** | **28,814,716** | **$ 5,116,055** | **$ 1,211,943** | **$ -** | **$ (4,944,451)** | **$ 1,383,547** |
| Private placement | 23,314,757 | 8,975,751 | - | - | - | **8,975,751** |
| Share issue costs | - | (448,333) | 138,810 | - | - | **(309,523)** |
| Shares issued on exercise of warrants | 183,075 | 50,769 | - | - | - | **50,769** |
| Shares issued for exploration and evaluation assets | 1,000,000 | 150,000 | - | - | - | **150,000** |
| Shares issued on exercise of options | 535,000 | 276,585 | (167,835) | - | - | **108,750** |
| Share-based compensation | - | | 1,074,198 | - | - | **1,074,198** |
| Loss for the year | - | - | - | - | (1,310,381) | **(1,310,381)** |
| Other comprehensive loss | - | - | - | (197,219) | **-** | **(197,219)** |
| **Balance – April 30, 2011** | **53,847,548** | **14,120,827** | **2,257,116** | **(197,219)** | **(6,254,832)** | **9,925,892** |
| Share issue costs | - | (2,139) | - | - | - | **(2,139)** |
| Shares issued on exercise of warrants | 3,753,799 | 1,937,195 | (65,736) | - | - | **1,871,459** |
| Shares issued for exploration and evaluation assets | 2,000,000 | 1,910,000 | - | - | - | **1,910,000** |
| Shares issued on exercise of options | 1,324,500 | 663,514 | (396,139) | - | - | **267,375** |
| Share-based compensation | - | - | 1,576,125 | - | - | **1,576,125** |
| Loss for the year | - | - | - | - | (1,848,096) | **(1,848,096)** |
| Other comprehensive gain | **-** | **-** | **-** | 45,579 | - | **45,579** |
| **Balance – April 30, 2012** | **60,925,847** | **$18,629,397** | **$ 3,371,366** | **$ (151,640)** | **$ (8,102,928)** | **$ 13,746,195** |

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

# Consolidated Statements of Cash Flows

## *Expressed in Canadian Dollars*

| | For the year ended April 30, 2012 | April 30, 2011 |
|---|---|---|
| | | (Note 16) |
| **OPERATING ACTIVITIES** | | |
| Loss for the year | $ (1,848,096) | $ (1,310,381) |
| Items not affecting cash: | | |
| Depreciation | 71,546 | 14,700 |
| Share-based compensation | 1,100,133 | 846,298 |
| Deferred tax expense | 124,000 | 62,000 |
| Changes in non-cash working capital items related to operations: | | |
| Receivables | (23,335) | (38,315) |
| Prepaid expenses | (15,230) | (476) |
| Accounts payable and accrued liabilities | (7,435) | 57,453 |
| **Cash used in operating activities** | (598,417) | (368,721) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of equipment | (315,461) | (137,045) |
| Exploration advances | (45,657) | (97,820) |
| Expenditures on exploration and evaluation assets | (6,999,591) | (1,492,590) |
| **Cash used in investing activities** | (7,360,709) | (1,727,455) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares | 2,138,834 | 9,135,270 |
| Share issue costs | (2,139) | (309,523) |
| **Cash generated by financing activities** | 2,136,695 | 8,825,747 |
| **Change in cash during the year** | (5,822,431) | 6,729,571 |
| **Effect of foreign exchange on cash** | 1,517 | - |
| **Cash, beginning of year** | 7,167,471 | 437,900 |
| **Cash, end of year** | $ 1,346,557 | $ 7,167,471 |

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

### 1 CORPORATE INFORMATION AND GOING CONCERN

Golden Reign Resources Ltd. (the “Company”) was incorporated on April 1, 2004 under the laws of the Yukon Territory and continued into British Columbia under the *British Columbia Corporations Act.* Its principal business activity is the acquisition, exploration of exploration and evaluation assets. The Company is listed on the TSX Venture Exchange (“TSX-V”) and under the symbol GRR. The address of the company’s corporate office and principal place of business is 501 – 595 Howe Street, Vancouver, BC, Canada.

The Company’s primary exploration and evaluation asset is the San Albino-Murra Mining Concession, located in Nicaragua, which is in the exploration stage. Recovery of the carrying value of the investment in exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development and the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

The Company is a mineral exploration company focused on acquiring, exploring and developing exploration and evaluation assets in Nicaragua. In conducting operations in Nicaragua, the Company is subject to considerations and risks such as the political, economic and legal environments in an emerging market. Among other things, the Company’s results may be adversely affected by changes in conditions in Nicaragua, and by changes in governmental policies with respect to mining laws and regulations, and rates and methods of taxation.

The consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has no source of operating cash flows, has not yet achieved profitable operations, has accumulated losses since its inception, expects to incur further losses in the development of its business and has no assurance that sufficient funding will be available to conduct further exploration of its mineral properties.

Management estimates it will have sufficient working capital to conduct its planned operations for fiscal 2012. In the future, the Company may raise additional financing through the issuance of share capital, however, there can be no assurance that it will be successful in its efforts to do so and that the terms will be favourable to the Company. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, or the impact on the statement of operations and balance sheet classifications that would be necessary were the going concern assumption not appropriate.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

These consolidated financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s transition date to IFRS is May 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). Historical results and balances have been restated under IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 16.

These consolidated financial statements were approved on August 27, 2012.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**b) Basis of presentation**

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

**c) Basis of Consolidation**

These consolidated financial statements include the accounts of the Company's subsidiary. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date the control ceases.

All intercompany balances, transactions, income and expenses have been eliminated upon consolidation.

**d) Subsidiary**

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies into line with those of the Company.

The consolidated financial statements of the Company include the following subsidiary:

| Name of subsidiary | Place of incorporation | Percentage ownership |
|---|---|---|
| **Gold Belt, S.A.** | Nicaragua | 100% |

**e) Determination of Functional Currency**

The financial statements for the Company and its subsidiary are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, Golden Reign Resources Ltd., is the Canadian dollar; and the functional currency of the Company's subsidiary is the US dollar. The presentation currency of the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identifies in IAS 21, "The Effects of Changes in Foreign Exchange Rates".

**f) Foreign currency translation**

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the financial reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statements of profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**f) Foreign currency translation** (cont'd…)

The financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as currency translation differences and taken into a separate component of equity.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses in accumulated other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses in accumulated other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

**g) Financial assets**

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

**i) Financial assets at fair value through profit or loss ("FVTPL")**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. FVTPL assets are initially recorded at fair value with unrealized gains and losses recognized through profit and loss. The Company's cash is classified as FVTPL.

**ii) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables are classified as loans and receivables.

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

**h) Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

**i) Other financial liabilities**

The category consists of liabilities carried at amortized cost being the effective interest method. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**i) Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principle payments; or
- It has become probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period if, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**j) Exploration and evaluation assets**

Exploration costs prior to obtaining legal title are expensed in the period in which they are incurred. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Properties that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units ("CGU") for the purpose of determining future mineral reserves and impairments.

Management reviews the capitalized costs on its exploration and evaluation assets at least annually to consider if there is an impairment value to take into consideration from current exploration results and management's assessment of the exploration results and of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. If a property is abandoned, or considered to have no future economic potential, the acquisition and accumulated exploration and evaluation costs are written off to profit or loss. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

Should a project be put into production, the costs of acquisition will be amortized over the life of the project based on estimated economic reserves.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**k) Decommissioning, restoration and similar liabilities**

The Company recognizes the liabilities for statutory, contractual, constructive or legal obligations associated with the decommissioning of tangible long-lived assets in the period when the liability arises. The net present value of future rehabilitation costs is capitalized to the long-lived asset to which it relates with a corresponding increase in the rehabilitation 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 Company's estimates of reclamation 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 the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as interest expense.

The Company has no known restoration, rehabilitation or environmental costs related to its exploration and evaluation assets.

**l) Equipment**

Equipment is recorded at historical cost less related accumulated amortization and accumulated impairment losses. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. When an asset is disposed of, its carrying cost is derecognized. All repairs and maintenance costs are charged to the consolidated statement of loss during the financial period in which they are incurred.

The Company provides for amortization of equipment on a declining balance basis unless otherwise noted using the following annual rates:

| | |
|---|---|
| Building | 20% |
| Computer equipment | 30% |
| Furniture and equipment | 20% |
| Exploration equipment | 20% |
| Vehicles | 30% |

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

When equipment is composed of major components with different useful lives, the components are accounted for as separate items of capital assets. Expenditures incurred to replace an asset component that is accounted for separately, including major inspections and overhaul expenditures, are capitalized.

The Company's equipment is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**l) Equipment** (cont'd…)

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**m) Share capital**

The Company has one class of shares, common shares, which are classified as share capital. These are recorded at the proceeds received less any direct issue costs and related taxes. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Where the Company purchases any of the Company's equity share capital, the consideration paid is deducted from equity attributable to the Company's equity holders until shares are cancelled, reissued or disposed of.

**n) Deferred taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current income tax expense represents the expected income tax payable (or recoverable) on taxable income for the period using income tax rates enacted or substantially enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the forseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recorded.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**o) Loss per share**

The Company presents basic and diluted loss per share data for common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### p) Share-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services to those performed by an employee.

The fair value of stock option is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to contributed surplus.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based compensation. Otherwise, share-based payments are measured at the fair value of goods or services received.

### q) Significant accounting judgments and estimation uncertainties

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statement, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimates are revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### i) Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

* Whether or not an impairment has occurred in its mineral properties;
* The inputs used in the accounting for share-based payments expense in deficit;
* The inputs used in the accounting for finders' warrants and compensation options in share capital and equity reserves; and
* Assumptions used for deferred income taxes.

#### ii) Critical accounting judgments

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy involves judgments or assessments made by management.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**r) Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**s) Future accounting pronouncements (effective for annual periods beginning on or after January 1, 2013)**

The following standards and interpretations have been issued but are not yet effective:

**i) Fair-value measurement**

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

**ii) Financial instruments**

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently evaluating the impact of IFRS 9 is expected to have on its financial statements.

**iii) Consolidated financial statements**

IFRS 10, "Consolidated Financial Statements" requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, "Consolidation – Special Purpose Entities" and parts of IAS 27, "Consolidated and Separate Financial Statements". The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures". The Company is currently evaluating the impact of IFRS 10 is expected to have on its financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**s) Future accounting pronouncements** (cont'd…)

**iv) Income taxes**

The IASB issued amendments to IAS 12, "Income Taxes" to introduce an exception to the general measurement requirements in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amended standard is effective for annual periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of IAS 12 on its financial statements.

**v) Presentation of financial statements**

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" to" (a) require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income/loss; and (b) require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). The amendments also reaffirm existing requirements that items in OCI and income or loss should be presented as either a single statement or two separate statements. The Company is currently evaluating the impact of IAS 1 is expected to have on its financial statements.

**vi) Separate financial statements**

IAS 27 (2011), "Separate Financial Statements", is the standard to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IAS 27 (2011) supersedes IAS 27 (2008) and carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amended standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IAS 28 (2011), "Investments in Associates and Joint Ventures". The Company is currently evaluating the impact of IAS 27 (2011) is expected to have on its financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**s) Future accounting pronouncements** (cont'd…)

**vii) Financial Instruments: Presentation**

The IASB amended IAS 32 "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

* The meaning of "currently has a legally enforceable right of set-off";
* The application of simultaneous realization and settlement;
* The offsetting of collateral amount; and
* The unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of IAS 32 is expected to have on its financial statements.

**viii) Disclosure of interests in other entities**

IFRS 12, "Disclosure of Interests in Other Entities", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures". The Company is currently evaluating the impact of IFRS 12 is expected to have on its financial statements.

There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**3. CASH**

Cash consists of the following:

| | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| Cash | $ 141,557 | $ 217,471 | $ 437,900 |
| Demand deposit | 1,205,000 | 6,950,000 | - |
| | $ 1,346,557 | $ 7,167,471 | $ 437,900 |

As at April 30, 2012, the Company's demand deposit consisted of a guaranteed investment certificate bearing an interest rate of prime lending rate of the Bank of Montreal less 1.8%, which is redeemable, in whole or in part, at any time with an expiry date of April 1, 2013.

## 4. RECEIVABLES

Receivables consist of the following:

| | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| HST Receivable | $ 69,607 | $ 39,725 | $ 9,851 |
| Interest Receivable | 2,180 | 8,727 | 286 |
| | $ 71,787 | $ 48,452 | $ 10,137 |

## 5. EQUIPMENT

| | Building | Computer equipment | Furniture and Equipment | Exploration Equipment | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at May 1, 2010** | **$ -** | **$ 16,629** | **$ 11,653** | **$ 4,621** | **$ 19,595** | **$ 52,498** |
| Additions | - | - | 5,736 | 89,790 | 41,519 | 137,045 |
| Disposals | - | - | - | - | - | - |
| Translation adjustment | - | - | (295) | (4,308) | (3,185) | (7,788) |
| **Balance at April 30, 2011** | **-** | **16,629** | **17,094** | **90,103** | **57,929** | **181,755** |
| Additions | 107,391 | 15,485 | 28,309 | 90,799 | 73,477 | 315,461 |
| Disposals | - | - | - | - | - | - |
| Translation adjustment | (831) | - | 45 | 3,250 | 1,972 | 4,436 |
| **Balance at April 30, 2012** | **$ 106,560** | **$ 32,114** | **$ 45,448** | **$ 184,152** | **$ 133,378** | **$ 501,652** |
| **Depreciation and impairment** | | | | | | |
| **Balance at May 1, 2010** | **$ -** | **$ 11,934** | **$ 7,644** | **$ 462** | **$ 2,940** | **$ 22,980** |
| Additions | - | 1,408 | 1,121 | 2,988 | 9,183 | 14,700 |
| Disposals | - | - | - | - | - | - |
| Translation adjustment | - | - | (14) | (99) | (408) | (521) |
| **Balance at April 30, 2011** | **-** | **13,342** | **8,751** | **3, 351** | **11,715** | **37,159** |
| Additions | 10,740 | 3,309 | 4,557 | 27,333 | 25,607 | 71,546 |
| Disposals | - | - | - | - | - | - |
| Translation adjustment | (84) | - | (10) | (64) | 316 | 158 |
| **Balance at April 30, 2012** | **$ 10,656** | **$ 16,651** | **$ 13,298** | **$ 30,620** | **$ 37,638** | **$ 108,863** |
| **Carrying amounts** | | | | | | |
| **At May 1, 2010** | **$ -** | **$ 4,695** | **$ 4,009** | **$ 4,159** | **$ 16,655** | **$ 29,518** |
| **At April 30, 2011** | **$ -** | **$ 3,287** | **$ 8,343** | **$ 86,752** | **$ 46,214** | **$ 144,596** |
| **At April 30, 2012** | **$ 95,904** | **$ 15,463** | **$ 32,150** | **$ 153,532** | **$ 95,740** | **$ 392,789** |

## 6. EXPLORATION ADVANCES

The Company has paid the following exploration advances related to the San Albino-Murra Property:

| | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| Drilling Advance | $ 97,820 | $ 97,820 | $ - |
| Professional fees | 45,657 | - | - |
| | **$ 143,477** | **$ 97,820** | **$ -** |

## 7. EXPLORATION AND EVALUATION ASSETS

### a) San Albino-Murra Property, Nicaragua

The Company acquired an 80% interest in the San Albino-Murra Mining Concession (the "Property") located in Nicaragua by making cash payments of US$450,000, incurring aggregate exploration expenditures of US$5,000,000 and issuing 4,000,000 common shares at a value of $2,200,000. Upon the Company earning its 80% interest, the optionor had a 60-day period in which to elect to either (i) enter into a participating joint-venture agreement, or (ii) convert its 20% working interest to a 3% Net Smelter Royalty ("NSR"), in which case, the Company has the right to purchase 50% of the NSR, or 1.5%, for an amount of US$1,850,000, and, further, will have the right of first refusal to purchase the remaining 1.5% NSR should it be offered for sale at any time. Subsequent to the end of fiscal 2012, the Company was informed by the optionor that it elects to continue under a joint-venture agreement (Note 17 (e)).

Should a commercial production decision be reached, the Company, at its election, will issue to the optionor additional shares in its capital or cash or a combination thereof, the value of which is to be equivalent to US$3,500,000.

### b) El Jicaro Concession, Nicaragua

In January 2012, the Company paid $119,472 (USD$120,000) to acquire a 100% interest in the El Jicaro Concession, which is contiguous to the San Albino-Murra Property, located in Nueva Segovia, Nicaragua. The El Jicaro Concession license is valid for a period of twenty-five years until September 28, 2033.

## 7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

### For the Year Ended April 30, 2012:

| | San Albino-Murra | El Jicaro | Total |
|---|---|---|---|
| Acquisition costs | | | |
| Balance, April 30, 2011 | $ 552,395 | $ - | $ 552,395 |
| Option payments | 2,234,492 | 119,472 | 2,353,964 |
| Translation adjustment | 6,942 | (924) | 6,018 |
| | 2,793,829 | 118,548 | 2,912,377 |
| Deferred exploration costs | | | |
| Balance, April 30, 2011 | 2,117,243 | - | 2,117,243 |
| Assaying | 792,564 | - | 792,564 |
| Drilling | 4,793,138 | - | 4,793,138 |
| Field office | 152,979 | - | 152,979 |
| Geological consulting | 638,232 | - | 638,232 |
| Professional fees | 31,815 | - | 31,815 |
| Project expenses | 669,762 | - | 669,762 |
| Reports | 14,687 | - | 14,687 |
| Share-based compensation | 475,992 | - | 475,992 |
| Travel | 74,601 | - | 74,601 |
| Translation adjustment | 33,726 | - | 33,726 |
| | 9,794,739 | - | 9,794,739 |
| **Balance, April 30, 2012** | **$ 12,588,568** | **$ 118,548** | **$ 12,707,116** |

### For the Year Ended April 30, 2011:

| | San Albino-Murra |
|---|---|
| Acquisition costs | |
| Balance, May 1, 2010 | $ 340,707 |
| Option payments | 251,426 |
| Translation adjustment | (39,738) |
| | 552,395 |
| Deferred exploration costs | |
| Balance, May 1, 2010 | 620,004 |
| Assaying | 177,499 |
| Drilling | 167,793 |
| Field office | 29,358 |
| Geological consulting | 336,671 |
| Professional fees | 111,327 |
| Project expenses | 481,446 |
| Reports | 10,046 |
| Surface fees | 70,731 |
| Share-based compensation | 227,900 |
| Travel | 34,682 |
| Translation adjustment | (150,214) |
| | 2,117,243 |
| **Balance, April 30, 2011** | **$ 2,669,638** |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| Accounts Payable | $ 690,791 | $ 68,630 | $ 27,803 |
| Accrued Liabilities | 59,836 | 77,281 | 32,266 |
| | $ 750,627 | $ 145,911 | $ 60,069 |

## 9. SHARE CAPITAL

**Authorized:**

Unlimited number of common shares, without par value

See the consolidated statements of changes in equity for a summary of changes in Share capital and Reserves share based for the years ended April 30, 2012 and 2011.

### a) Private placements

#### i) During the year ended April 30, 2011:

In January 2011, the Company completed a non-brokered private placement issuing 16,851,197 units at a price of $0.45 per unit for gross proceeds of $7,583,039. Each unit was comprised of one common share and one share purchase warrant, each warrant entitling the holder thereof to purchase one additional common share at a price of $0.75 for a period of two years. Finders' fees of $250,893 cash and 494,020 warrants exercisable into 494,020 common shares at a price of $0.75 per share for a period of two years were paid in connection with the private placement. The share purchase warrants were valued at $127,691 and credited to contributed surplus. Fair value was determined using the Black-Scholes valuation model, based on a risk free interest rate of 1.76%, an expected life of two years, an expected volatility of 90.92% and a dividend yield rate of nil.

In October 2010, the Company completed a non-brokered private placement issuing 2,000,000 units at a price of $0.25 per unit for gross proceeds of $500,000. Each unit was comprised of one common share and one share purchase warrant, each warrant entitling the holder thereof to purchase one additional common share at a price of $0.35 for a period of two years, subject to an acceleration clause, at managements election, should the trading price of the Company's shares for 20 consecutive trading days exceed $0.70 per share during the exercise period, then the expiry time of the warrants shall be 30 calendar days from the date that written notice is provided by the Company to the warrant holders.

**9. SHARE CAPITAL** (cont'd...)

**a) Private placements** (cont'd...)

**i) During the year ended April 30, 2011** (cont'd...)**:**

In June 2010, the Company completed the second and final tranche of a non-brokered private placement, issuing 4,463,560 units at a price of $0.20 per unit for gross proceeds of $892,712. Each unit was comprised of one common share and one-half of one share purchase warrant, each full warrant entitling the holder thereof to purchase one additional common share at a price of $0.25 for a period of two years. Finders' fees of $23,000 cash and 125,000 warrants exercisable into 125,000 common shares at a price of $0.25 per share for a period of two years were paid in connection with this tranche of the private placement. The share purchase warrants were valued at $11,119 and credited to contributed surplus. Fair value was determined using the Black-Scholes valuation model, based on a risk free interest rate of 1.82%, an expected life of two years, an expected volatility of 117.90% and a dividend yield rate of nil. Including the first tranche that closed on April 1, 2010, the Company raised gross proceeds of $1,267,712.

**b) Share purchase warrants**

The following share purchase warrants were outstanding as at April 30, 2012 and 2011:

| | April 30, 2012 | | | April 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Number of Warrants | | Weighted Average Exercise Price | Number of Warrants | | Weighted Average Exercise Price |
| Opening balance | 22,456,422 | $ | 0.64 | 937,500 | $ | 0.25 |
| Granted | - | | - | 21,701,997 | | 0.66 |
| Exercised | (3,753,799) | | 0.50 | (183,075) | | 0.28 |
| Ending balance | 18,702,623 | $ | 0.67 | 22,456,422 | $ | 0.64 |
| Warrants exercisable | 18,702,623 | $ | 0.67 | 22,456,422 | $ | 0.64 |

At April 30, 2012 and April 30, 2011 the following share purchase warrants were outstanding:

| Expiry Date | Exercise Price | April 30, 2012 | April 30, 2011 | Weighted Average Remaining Contractual Life |
|---|---|---|---|---|
| April 8, 2012 | $0.25 | - | 912,500 | 0.00 years |
| June 9, 2012 | $0.25 | 1,273,425 | 2,248,705 | 0.11 years |
| September 29, 2012 | $0.35 | 1,950,000 | 1,950,000 | 0.42 years |
| January 18, 2013 | $0.75 | 15,479,198 | 17,345,217 | 0.72 years |
| | | **18,702,623** | **22,456,422** | **0.30 years** |

**9. SHARE CAPITAL** (cont'd...)

**c) Share options**

The Company has a share option plan, under which the Board of Directors is authorized to grant options to employees, directors, officers and consultants, enabling them to acquire up to 10% of the issued and outstanding share capital of the Company. The exercise price of each option is based on the market price of the Company's share as calculated on the date of grant. The options can be granted for a maximum term of five years. Options granted to investor relations consultants are subject to vesting provisions, as established by regulatory authorities, over a twelve month period, with no more than ¼ vesting during any three month period. Vesting provisions for other options are determined by the Company's Board of Directors.

The following options were outstanding as at April 30, 2012 and April 30, 2011:

| | April 30, 2012 | | April 30, 2011 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Opening balance | 4,830,000 | $ 0.37 | 2,250,000 | $ 0.20 |
| Granted | 2,000,000 | 1.10 | 3,215,000 | 0.46 |
| Exercised | (1,324,500) | 0.20 | (535,000) | (0.20) |
| Expired | (165,000) | 0.85 | (100,000) | (0.20) |
| Ending balance | 5,340,500 | $ 0.67 | 4,830,000 | $ 0.37 |
| Options exercisable | 5,340,500 | $ 0.67 | 4,678,750 | $ 0.36 |

All share options had exercise prices that were higher or equal to market prices at the date of grant.

| Weighted Average Exercise Price | Expiry Date | Number Outstanding | Number Exercisable | Weighted Average Remaining Contractual Life |
|---|---|---|---|---|
| 0.20 | November 9, 2014 | 375,000 | 375,000 | 2.53 years |
| 0.25 | September 20, 2015 | 915,500 | 915,500 | 3.39 years |
| 0.41 | October 15, 2015 | 400,000 | 400,000 | 3.46 years |
| 0.50 | October 15, 2015 | 150,000 | 150,000 | 3.46 years |
| 0.56 | February 7, 2016 | 1,500,000 | 1,500,000 | 3.78 years |
| 1.10 | February 15, 2017 | 2,000,000 | 2,000,000 | 4.80 years |
| **$ 0.67** | | **5,340,500** | **5, 340,500** | **3.57 years** |

**d) Share-based compensation**

During fiscal 2012, the Company recorded share-based compensation totaling $1,576,125, of which $475,992 was capitalized as mineral property expenditures and $1,100,133 was expensed as share-based compensation in operations, with a corresponding increase in reserves-share based.

During fiscal 2011, the Company recorded share-based compensation totaling $1,074,198 of which $227,900 was capitalized as mineral property expenditures and $846,298 was expensed as share-based compensation in operations, with a corresponding increase in reserves-share based.

**9. SHARE CAPITAL** (cont'd...)

**d) Share-based compensation** (cont'd…)

The fair value of share options was estimated on the measurement date using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The assumptions used to calculate the fair value were as follows:

The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 1.37% | 2.36% |
| Expected life of options | 5 years | 5 years |
| Expected volatility | 111.09% | 114.87% |
| Weighted average fair value per option | $0.77 | $ 0.35 |
| Dividend yield | Nil | Nil |

**10. RELATED PARTY TRANSACTIONS**

During the year ended April 30, 2012, the Company paid or accrued:

a) management fees of $102,000 (2011 - $86,000) to a director and officer of the Company; and

b) consulting fees of $78,000 (2011 - $62,000) to an officer of the Company for the provision of geological consulting services, which was capitalized to exploration and evaluation assets.

Included in accounts payable and accrued liabilities is a total of $5,502 (April 30, 2011 - $8,352; May 1, 2010 - $1,190) due to related parties for expenses. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

Key management includes directors (executive and non-executive), the President and VP of Exploration. The Compensation paid or payable to key management for employee services is shown below:

| | April 30, 2012 | April 30, 2011 |
|---|---|---|
| Short-term employee benefits | $ 180,000 | $ 148,000 |
| Share-based compensation | 445,050 | 163,333 |
| | **$ 625,050** | **$ 311,333** |

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2012 | 2011 |
|---|---|---|
| **Cash paid during the period for:** | | |
| Interest | $ - | $ - |
| Income taxes | $ - | $ - |
| **Non-cash financing and investing activities:** | | |
| Issuance of 2,000,000 common shares for exploration and evaluation assets | $ 1,910,000 | $ 150,000 |
| Stock-based compensation included in exploration costs | $ 475,992 | $ 227,900 |
| Exploration costs included in accounts payable | $ 664,809 | $ 52,658 |
| Fair value of option exercised allocated to share capital | $ 396,139 | $ 167,835 |
| Fair value of warrants exercised allocated to share capital | $ 65,736 | $ - |
| Fair value of warrants issued as finders' fees | $ - | $ 138,810 |

## 12. INCOME TAXES

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

| | 2012 | 2011 |
|---|---|---|
| Loss for the year before income tax | $(1,724,096) | $(1,248,381) |
| Expected income tax recovery | $ (448,000) | $ (347,000) |
| Change in statutory, foreign tax and other | 27,000 | 30,000 |
| Permanent differences | 410,000 | 235,000 |
| Share issue costs | (1,000) | (65,000) |
| Change in unrecognized deductible temporary differences | 136,000 | 209,000 |
| Total income tax expense | $ 124,000 | $ 62,000 |

Significant components of the Company's future income tax assets and liabilities are as follows:

| | 2012 | 2011 |
|---|---|---|
| Future income tax assets | | |
| Equipment | $ 7,000 | $ 6,000 |
| Share issue costs | 49,000 | 65,000 |
| Exploration and evaluation assets | 297,000 | 295,000 |
| Allowable capital losses | 155,000 | 155,000 |
| Non-capital losses available for future periods | 823,000 | 674,000 |
| Unrecognized deferred tax assets | 1,331,000 | 1,195,000 |
| Future income tax liability – foreign jurisdiction | | |
| Exploration and evaluation assets | (186,000) | (62,000) |
| Deferred income tax liability | $ (186,000) | $ (62,000) |

The Company has approximately $3,290,000 of Canadian non-capital losses which may be applied to reduce taxable income in future years, and which if not utilized, will expire through to 2032. Additionally, the Company has available $1,240,000 of capital losses. Future tax benefits which may arise as a result of future income tax assets have not been recognized in these financial statements as it is not probable that they can be realized in the near future.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments measured at fair value are classified into one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments include cash, receivables, and accounts payable and accrued liabilities.

### a) Fair value

Cash is measured at fair value using level one as the basis for measurement in the fair value hierarchy. The carrying value of receivables and payables and accrued liabilities approximate fair value because of the short-term nature of these instruments.

### b) Credit and interest 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 has no significant concentration of credit risk arising from operations. The Company has significant cash balances but no interest-bearing debt. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and receivables. The Company's current policy is to invest excess cash in variable interest investment-grade demand deposit certificates issued by reputable financial institutions with which it keeps its bank accounts and management believes the risk to be remote. Receivables are primarily due from a government agency. The Company's credit risk has not changed significantly from the prior period.

### c) Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company manages liquidity risk by ensuring that it has sufficient cash and other financial resources available to meet its short term obligations. The Company forecasts cash flows for a period of twelve months to identify financial requirements. These requirements are met through a combination of cash flows from operations, dispositions of assets and accessing financing through private placements. The exposure of the Company to liquidity risk is considered to be minimal. At April 30, 2012, the Company had a cash balance of $1,346,557 to settle current liabilities of $750,627. The Company raised additional capital subsequent to year-end (Note 17).

### d) Commodity risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of commodities for which it is exploring. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

### e) Foreign currency risk

The Company's functional currency is the Canadian dollar; however, there are transactions in US dollars. The Company is exposed to the currency risk related to the fluctuation of foreign exchange rates and the degree of volatility in these rates. The subsidiary's functional currency however is USD and therefore the entire subsidiary is USD. As this is where all exploration and evaluation spending occurs, it would make sense that the company would be exposed to foreign currency risk and currently this risk is quantified at a 1% change. A reduction in the value of the US Dollar relative to the Canadian dollar would have a favourable impact on funding required for exploration, subject to any resulting inflationary impacts; while an increase in that value would have an unfavourable impact. The Company has not hedged its exposure to currency fluctuations.

## 14. CAPITAL MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash on deposit in an interest bearing Canadian chartered bank account. Cash consists of cash on hand and demand deposits. There have been no changes to the Company's approach to capital management during the year ended April 30, 2012. The Company is not subject to externally imposed capital requirements.

## 15. SEGMENTED INFORMATION

The Company operates in the single business segment of mine exploration and development. The Company's identifiable capital assets are located primarily in Nicaragua. Geographic information is as follows:

| | April 30, 2012 | April 30, 2011 | May 1, 2010 |
|---|---|---|---|
| **Equipment** | | | |
| Nicaragua | $ 375,098 | $ 138,524 | $ 21,342 |
| Canada | 17,691 | 6,072 | 8,176 |
| | **392,789** | **144,596** | **29,518** |
| **Exploration and evaluation assets** | | | |
| Nicaragua | $ 12,707,116 | $ 2,669,638 | $ 960,711 |
| Canada | - | - | - |
| | **$ 13,099,905** | **$ 2,814,234** | **$ 990,229** |

## 16. FIRST TIME ADOPTION OF IFRS

### Transition to IFRS

As stated in Note 2, these financial statements are for the year covered by the Company's consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the periods ended April 30 2011, and the opening IFRS statement of financial position on May 1, 2010, the ("Transition Date").

In preparing the opening IFRS statement of financial position and the financial statements for the year ended April 30, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position is set out in the following table. The guidance for the first time adoption of IFRS is set out in IFRS 1, "First-Time Adoption of International Financial Reporting Standards". IFRS 1 provides for certain mandatory exceptions and optional exemptions from the general principle of retrospective restatement for first time adopters of IFRS.

The guidance for the first time adoption to IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

**i)** IFRS 2, "Share Based payments"

The Company has elected not to apply IFRS 2 to share based payments granted and fully vested before the Company's date of transition to IFRS.

**ii)** IFRS 3, "Business Combinations"

IFRS 3 has not been applied to acquisitions of subsidiaries that occurred before May 1, 2010, the Company's transition date to IFRS. As such, there is no retrospective change in accounting for business combinations.

**iii)** Cumulative foreign currency translation differences

The Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the transition date to IFRS. Any gains and losses on subsequent disposal of foreign operations will not be impacted by translation differences that arose prior to the date of transition.

The Company applied the following mandatory exception:

Estimates:

Hindsight is not used to create or revise estimates. In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of April 30, 2010 are consistent with its GAAP estimates for the same date.

The reconciliation between the GAAP and IFRS statement of financial position at May 1, 2010 (date of transition to IFRS) is provided below:

## 16. FIRST TIME ADOPTION OF IFRS (cont'd...)

**b)** The Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

| | Canadian GAAP May 1, 2010 | Effect of transition to IFRS | IFRS May 1, 2010 | Canadian GAAP April 30, 2011 | Effect of transition to IFRS | IFRS April 30, 2011 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash | $437,900 | $ - | $437,900 | $7,167,471 | $ - | $7,167,471 |
| Receivables | 10,137 | - | 10,137 | 48,452 | - | 48,452 |
| Prepaid expenses | 5,350 | - | 5,350 | 5,826 | - | 5,826 |
| | 453,387 | - | 453,387 | 7,221,749 | - | 7,221,749 |
| Equipment | 30,833 | (1,315) | 29,518 | 153,178 | (8,582) | 144,596 |
| Exploration Advances | - | - | - | 97,820 | - | 97,820 |
| Exploration and evaluation assets | 985,774 | (25,063) | 960,711 | 2,884,653 | (215,015) | 2,669,638 |
| **Total assets** | $1,469,994 | $(26,378) | $1,443,616 | $10,357,400 | $(223,597) | $10,133,803 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued liabilities | $ 60,069 | $ - | $60,069 | $145,911 | $ - | $145,911 |
| Deferred tax liability | - | - | - | 62,000 | - | 62,000 |
| **Total liabilities** | 60,069 | - | 60,069 | 207,911 | - | 207,911 |
| **EQUITY** | | | | | | |
| Share capital | 5,116,055 | - | 5,116,055 | 14,120,827 | - | 14,120,827 |
| Reserves – Share based | 1,211,943 | - | 1,211,943 | 2,250,851 | 6,265 | 2,257,116 |
| Reserves - Translation adjustment | - | - | - | - | (197,219) | (197,219) |
| Deficit | (4,918,073) | (26,378) | (4,944,451) | (6,222,189) | (32,643) | (6,254,832) |
| **Total equity** | 1,409,925 | (26,378) | 1,383,547 | 10,149,489 | (223,597) | 9,925,892 |
| **TOTAL LIABILITIES AND EQUITY** | $1,469,994 | $(26,378) | $1,443,616 | $10,357,400 | $(223,597) | $10,133,803 |

## 16. FIRST TIME ADOPTION OF IFRS (cont'd...)

**c)** The Canadian GAAP statement of loss and comprehensive loss has been reconciled to IFRS as follows:

| | For the Year Ended April 30, 2011 | | |
|---|---|---|---|
| | Canadian GAAP April 30, 2011 | Effect of Transition to IFRS | IFRS April 30, 2011 |
| **EXPENSES** | | | |
| Depreciation | $ 14,700 | $ - | $ 14,700 |
| Management fees | 86,000 | - | 86,000 |
| Office and miscellaneous | 61,830 | - | 61,830 |
| Professional fees | 55,408 | - | 55,408 |
| Regulatory and listing fees | 29,210 | - | 29,210 |
| Share-based compensation | 840,033 | 6,265 | 846,298 |
| Travel and promotion | 64,458 | - | 64,458 |
| Wages and benefits | 100,608 | - | 100,608 |
| | (1,252,247) | (6,265) | (1,258,512) |
| Interest income | 10,131 | - | 10,131 |
| Deferred tax expense | (62,000) | - | (62,000) |
| **Loss for the year** | (1,304,116) | - | (1,310,381) |
| **Other comprehensive loss** | | | |
| Currency translation difference | - | (197,219) | (197,219) |
| **Loss and comprehensive loss for the year** | **$ (1,304,116)** | **$ (203,484)** | **$ (1,507,600)** |

## 16. FIRST TIME ADOPTION OF IFRS (cont'd...)

**d)** The Canadian GAAP statement of cash flows has been reconciled to IFRS as follows:

| | For the Year Ended April 30, 2011 | | |
|---|---|---|---|
| | Canadian GAAP April 30, 2011 | Effect of Transition to IFRS | IFRS April 30, 2011 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss for the year | $ (1,304,116) | $ (6,265) | $ (1,310,381) |
| Items not affecting cash: | | | |
| Amortization | 14,700 | - | 14,700 |
| Shared-based compensation | 840,033 | 6,265 | 846,298 |
| Deferred tax expense | 62,000 | - | 62,000 |
| Changes in non-cash working capital items: | | | |
| Increase in receivables | (38,315) | - | (38,315) |
| Increase in prepaid expenses | (476) | - | (476) |
| Increase in accounts payable and accrued liabilities | 57,453 | - | 57,453 |
| Cash flows used in operating activities | (368,721) | - | (368,721) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of equipment | (137,045) | - | (137,045) |
| Expenditures on exploration and evaluation assets | (1,492,590) | - | (1,492,590) |
| Exploration advances | (97,820) | - | (97,820) |
| Cash used in investing activities | (1,727,455) | - | (1,727,455) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of shares | 9,135,270 | - | 9,135,270 |
| Share issue costs | (309,523) | - | (309,523) |
| Cash provided by financing activities | 8,825,747 | - | 8,825,747 |
| **Increase in cash during the year** | 6,729,571 | - | 6,729,571 |
| **Cash, beginning of year** | 437,900 | - | 437,900 |
| **Cash, end of year** | **$ 7,167,471** | **$ -** | **$ 7,167,471** |

### e) Adjustments

The following paragraphs explain the significant differences between GAAP and IFRS accounting policies applied by the Company. The differences result in adjustments in the tables above. The descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the table.

**16. FIRST TIME ADOPTION OF IFRS** (cont'd...)

**e) Adjustments** (cont'd…)

**i) Share-based compensation**

Under IFRS, the Company accrues the cost of share options over the vesting period using the graded method rather than the straight-line method, which was the Company's policy under Canadian GAAP. There was no impact on the Reserves - share based at the date of the transition. The impact for the year ended April 30, 2011 was to increase share-based compensation expense and deficit by $6,265 and increase Reserves – share based by the same amount.

**ii) Cumulative foreign currency translation differences**

In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. The Reserves – translation adjustment was affected as at April 30, 2011 as described below.

**iii) Functional currency**

Under Canadian GAAP, an entity applies criteria to determine only whether a foreign subsidiary's operation is integrated or self-sustaining, in which case the temporal or current methods of translation respectively, are then applied to the subsidiary's financial statements and results of operations. Under Canadian GAAP, the Company prepared its financial statements in Canadian dollars and its Nicaraguan subsidiary was determined to be integrated foreign operations.

Under IFRS, the functional currency of the reporting entity and each of its foreign operations must be assessed independently giving consideration to the primary economic environment in which each operates. IFRS provides guidance in respect of factors to be considered in determining an entity's functional currency that are similar to those noted in Canadian GAAP, however, unlike Canadian GAAP, IFRS distinguishes between primary and secondary factors in making such an assessment. Based on the assessment under IFRS, management has determined that the functional currency of Golden Reign Resources Ltd. is the Canadian dollar, its Nicaraguan subsidiary is the US dollar.

Accordingly, the effect of translation of the subsidiary to the Company's Canadian dollar presentation currency resulted in:

a) on the transition date, a decrease in assets of $26,378 with a corresponding adjustment to deficit (Reserve-translation adjustment); and

b) as at April 30, 2011, a decrease to assets of $197,219 with a corresponding adjustment to Reserves – translation adjustment, for a cumulative decrease of $223,597.

## 17. SUBSEQUENT EVENTS

Subsequent to April 30, 2012, the Company:

**a)** completed a private placement offering ("Offering") of 4,711,640 units (the "Units") priced at $0.67 per Unit for gross proceeds of approximately $3.16 million. Each Unit consists of one common share and one transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one additional common share at a price of $0.80 per share until July 12, 2014.

The Offering was completed by a syndicate of agents led by Stonecap Securities Inc. and included Union Securities Ltd. and Salman Partners Inc. (collectively, the "Agents"). In consideration, the Agents and certain selling agents received an aggregate cash commission of $117,300 and non-transferable broker warrants to acquire an aggregate of 138,269 common shares at a price of $0.67 per share until July 12, 2014. A total of $801,000 of the Offering was non-brokered;

**b)** received proceeds of $631,231 from the exercise of 2,143,425 share purchase warrants and 1,500 share options;

**c)** granted 1,365,000 share options priced at $0.80 per common share and exercisable for a period of five years to directors, officers, employees and consultants and recorded the expiry of 50,000 share options priced at $0.56 per option;

**d)** entered into an agreement with a company to provide marketing, investor relations and communications services for an initial period of one year and, as compensation, granted that company 50,000 share options priced at $0.80 and a further 50,000 share options priced at $1.00, each with a term of two years which are subject to vesting provisions in accordance with the Company's Plan and TSX-V policies; and

**e)** received notification from the optionor of the San Albino-Murra Property that it will retain its 20% interest in the project and elect to continue under a participating joint-venture agreement (Note 7 (a)).

# Corporate Social Responsibility

We believe that when the interests of business, society and the environment intersect everyone wins.

**Community**

Golden Reign's philosophy has always been very simple: Be a good corporate citizen. We aim to contribute to the wider economic, social and environmental well-being of those communities in which we conduct our exploration programs and of which we are a part. We have the opportunity to make meaningful contributions to our local community as well as other communities within the region. Collaborating with government, local organizations and special interest groups, Golden Reign's activities have included:

* providing over 260 school kits, comprised of uniforms, shoes, backpacks and classroom supplies, to kids in need
* launching an accredited Adult Literacy Program
* commencing English language classes in El Jicaro
* providing emergency provision kits and other supplies to the ambulance services in El Jicaro and Murra
* sponsoring numerous sports teams - baseball, soccer - of all ages
* hosting community celebrations, one which included the raffling of a prize bull
* donating supplies to the Catholic churches in both El Jicaro and Murra for much needed renovations
* donating supplies to regional fire brigades
* contributing computer equipment to the local judicial offices
* completion of road repairs and upgrades by our crew, plus the contribution of drainage culverts
* a major contribution to the local police forces of El Jicaro and Murra of the first-ever police truck for the area

***Our objective is to build long-term, sustainable relationships.***

**Employment**

Already a key employer in the area, as we grow we look to increase our local workforce, providing new opportunities and training.

GRR provides to its workers:
* Health & safety training
* Health testing and benefits

**Environment**

Golden Reign is committed to environmental sustainability and protection. We strive to minimize or, whenever possible, prevent, adverse effects from our exploration activities. We employ 'best practices' - meeting or exceeding the requirements of the jurisdictions in which we operate.

* In 2012, GRR planted 1,600 trees to aid in the prevention of soil erosion

## MANAGEMENT

**Kim Evans**
President and Chief Executive Officer

**William Meyer**
Director

**Bryce M.A. Porter**
Director

**Len Dennis**
Director

**John Conlon**
Director

**Michele Pillon**
Chief Financial Officer and Corporate Secretary

**Zoran Pudar**
Vice President Exploration

**John Kowalchuk, P.Geo.**
Project Manager

**David Reid, P.Geo.**
Senior Exploration Geologist

**Mauricio Evanan Espinoza Ruiz**
Chief Nicaraguan Geologist

**Oscar Molina**
Nicaragua Country Manager

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