# Stockport Exploration Inc.

Consolidated Financial Statements
**October 31, 2013**

January 15, 2014

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Stockport Exploration Inc.** (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) "*James Megann*"
President and Chief Executive Officer
Halifax, Nova Scotia

(signed) *"Robert Randall"*
Chief Financial Officer
Halifax, Nova Scotia

January 15, 2014

**Independent Auditor's Report**

**To the Shareholders of**
**Stockport Exploration Inc.**

We have audited the accompanying consolidated financial statements of **Stockport Exploration Inc.** and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2013 and October 31, 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended October 31, 2013 and October 31, 2012 and the related notes, which comprise 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.

**Auditor's 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Stockport Exploration Inc. and its subsidiaries as at October 31, 2013 and October 31, 2012 and the results of their operations and their cash flows for the years ended October 31, 2013 and October 31, 2012 in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to note 2 of the consolidated financial statements which describe matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Stockport Exploration Inc.'s ability to continue as a going concern.

(signed) *"PricewaterhouseCoopers LLP"*

**Chartered Accountants**

*PricewaterhouseCoopers LLP*
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# Stockport Exploration Inc.

Consolidated Statements of Financial Position

**As at October 31, 2013 and October 31, 2012**

(in Canadian dollars)

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 325,610 | 347,403 |
| Restricted cash (note 10) | 897,897 | – |
| Sales taxes recoverable | 25,530 | 38,368 |
| Prepaid expenses and deposits | 8,871 | 41,039 |
| | 1,257,908 | 426,810 |
| **Marketable securities** | 7,000 | 9,000 |
| **Property and equipment** (note 6) | 21,262 | 42,615 |
| **Resource properties** (note 7) | 8,893,845 | 8,543,627 |
| | 10,180,015 | 9,022,052 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 8) | 922,324 | 882,127 |
| **Convertible debentures** (note 10) | 967,127 | – |
| | 1,889,451 | 882,127 |
| **Shareholders' Equity** | 8,290,564 | 8,139,925 |
| | 10,180,015 | 9,022,052 |

**Basis of presentation and going concern** (note 2)

**Contingency** (note 14)

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

**Appoved on behalf of the Board of Directors**

(signed) "*Wade K. Dawe*"
Director

(signed) *"Carl Sheppard"*
Director

# Stockport Exploration Inc.

Consolidated Statements of Comprehensive Loss

**For the years ended October 31, 2013 and October 31, 2012**

(in Canadian dollars)

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Expenses** | | |
| Amortization | 4,567 | 9,088 |
| Banking fees | 876 | 1,417 |
| General and administrative | 58,091 | 72,689 |
| Investor relations and marketing | 15,398 | 39,616 |
| Listing and regulatory costs | 46,394 | 54,892 |
| Management salaries and services | 245,885 | 438,672 |
| Professional services | 59,724 | 113,976 |
| Share-based compensation (note 9) | 159,098 | 174,817 |
| Travel | 35,458 | 50,792 |
| Write-down of resource properties (note 7) | – | 4,405,173 |
| | 625,491 | 5,361,132 |
| **Other income (expenses)** | | |
| Recovery from resource properties | – | 26,000 |
| Gain (loss) on disposal of equipment | (6,676) | 940 |
| Foreign exchange gain (loss) | 2,929 | (13,705) |
| Interest income | 156 | 241 |
| | (3,591) | 13,476 |
| **Loss before income taxes** | (629,082) | (5,347,656) |
| **Recovery of deferred income taxes** (note 13) | 45,000 | 504,000 |
| **Net loss for the year** | (584,082) | (4,843,656) |
| **Items that may be reclassified subsequently to net income** | | |
| Unrealized loss on marketable securities | (2,000) | (3,000) |
| **Comprehensive loss for the year** | (586,082) | (4,846,656) |
| **Loss per share – basic and diluted** | (0.007) | (0.072) |
| **Weighted average number of common shares outstanding** | 78,308,694 | 67,519,435 |

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

# Stockport Exploration Inc.

## Consolidated Statements of Changes in Equity

**For the years ended October 31, 2013 and October 31, 2012**

(in Canadian dollars)

| | Number | Share capital $ | Equity portion of convertible debentures $ | Warrants $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| | (note 9) | (note 9) | | (note 11) | (note 12) | | | |
| **Balance October 31, 2011** | 62,070,326 | 20,428,607 | – | 295,978 | 3,789,907 | – | (13,137,665) | 11,376,827 |
| Net loss for the year | – | – | – | – | – | – | (4,843,656) | (4,843,656) |
| Unrealized loss on marketable securities | – | – | – | – | – | (3,000) | – | (3,000) |
| Comprehensive loss for the year | – | – | – | – | – | (3,000) | (4,843,656) | (4,846,656) |
| Shares issued pursuant to private placement | 11,000,000 | 1,100,000 | – | – | – | – | – | 1,100,000 |
| Issued on confirmation of mineral claims and acquisition of technical data | 949,658 | 203,480 | – | – | – | – | – | 203,480 |
| Subscriptions receivables collected | 411,950 | 80,458 | – | 22,530 | – | – | – | 102,988 |
| Finder's fees for shares issued | 350,000 | 35,000 | – | – | – | – | – | 35,000 |
| Share issue costs | – | (44,969) | – | – | – | – | – | (44,969) |
| Share-based compensation | – | – | – | – | 213,255 | – | – | 213,255 |
| **Balance October 31, 2012** | 74,781,934 | 21,802,576 | – | 318,508 | 4,003,162 | (3,000) | (17,981,321) | 8,139,925 |
| Net loss for the year | – | – | – | – | – | – | (584,082) | (584,082) |
| Unrealized loss on marketable securities | – | – | – | – | – | (2,000) | – | (2,000) |
| Comprehensive loss for the year | – | – | – | – | – | (2,000) | (584,082) | (586,082) |
| Shares issued pursuant to private placement | 5,197,160 | 519,716 | – | – | – | – | – | 519,716 |
| Warrants issued in connection with convertible debentures | – | – | – | 30,000 | – | – | – | 30,000 |
| Shares issued as finder's fees | 351,406 | 35,141 | – | – | – | – | – | 35,141 |
| Equity portion of convertible debentures | – | – | 75,000 | – | – | – | – | 75,000 |
| Share issue costs | – | (50,043) | – | – | – | – | – | (50,043) |
| Share-based compensation | – | – | – | – | 171,907 | – | – | 171,907 |
| Expiry of warrants, net of tax | – | – | – | (318,508) | 273,508 | – | – | (45,000) |
| **Balance October 31, 2013** | 80,330,500 | 22,307,390 | 75,000 | 30,000 | 4,448,577 | (5,000) | (18,565,403) | 8,290,564 |

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

# Stockport Exploration Inc.

Consolidated Statements of Cash Flows

**For the years ended October 31, 2013 and October 31, 2012**

(in Canadian dollars)

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Cash and cash equivalents provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | (584,082) | (4,843,656) |
| Charges (credits) to income not involving cash | | |
| Amortization | 4,567 | 9,088 |
| Share-based compensation | 159,098 | 174,817 |
| Loss (gain) on disposal of equipment | 6,676 | (940) |
| Write-down of resource properties | – | 4,405,173 |
| Recovery of deferred income taxes | (45,000) | (504,000) |
| | (458,741) | (759,518) |
| Net change in non-cash working capital balances related to operations | | |
| Decrease (increase) in sales taxes recoverable | 6,819 | (843) |
| Decrease in prepaid expenses and deposits | 32,168 | 9,268 |
| Increase in accounts payable and accrued liabilities | 33,020 | 29,810 |
| | (386,734) | (721,283) |
| **Financing activities** | | |
| Common shares issued for cash, net of issuance costs | 504,814 | 1,090,031 |
| Subscriptions receivable collected | – | 102,988 |
| Convertible debentures and warrants issued for cash, net of issuance costs (note 10) | 299,299 | – |
| | 804,113 | 1,193,019 |
| **Investing activities** | | |
| Resource property interests and options, net | (449,333) | (1,256,994) |
| Sales taxes recoverable related to resource property interests | 6,019 | 28,789 |
| Purchases of equipment | (258) | (17,429) |
| Proceeds on disposal of equipment | 4,400 | 4,769 |
| | (439,172) | (1,240,865) |
| **Net change in cash during the year** | (21,793) | (769,129) |
| **Cash – beginning of year** | 347,403 | 1,116,532 |
| **Cash – end of year** | 325,610 | 347,403 |
| **Cash is comprised of** | | |
| Cash on hand and balances with banks | 26,311 | 347,403 |
| Cash held in trust (note 10) | 299,299 | – |
| | 325,610 | 347,403 |
| **Non-cash financing activities** | | |
| Common shares issued as a cost of financing (note 9) | 35,141 | 35,000 |
| Proceeds of convertible debentures held as restricted cash (note 10) | 897,897 | – |
| Issue costs related to convertible debentures included in accounts payable (note 10) | 125,069 | – |
| Shares issued in connection with confirmation of mineral claims and acquisition of technical data | – | 203,480 |

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

## 1 Nature of operations

Stockport Exploration Inc. (the "Company") is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting to complete the development, and future profitable production or proceeds from the disposition thereof. The Company is incorporated and domiciled in Canada, and its head office is located at 1969 Upper Water Street, Suite 2001, Halifax, Nova Scotia, Canada.

## 2 Basis of presentation and going concern

### a) Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

For the year ended October 31, 2013, the Company incurred a net loss of approximately $0.6 million (2012 - $4.8 million) and as at October 31, 2013 had an accumulated deficit of approximately $18.6 million (2012 - $18.0 million). The Company has no income or cash inflow from operations and at October 31, 2013 had a negative working capital balance of approximately $0.6 million, excluding restricted cash, (2012 – negative working capital balance of $0.5 million). In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such material uncertainties cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or the sale of properties. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

### b) Statement of compliance

The Company prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of Chartered Professional Accountants of Canada – Part 1 ("CPA Canada Handbook"), which incorporates IFRS as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved the statements for issue on January 15, 2014.

## 2 Basis of presentation and going concern (continued)

### c) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis except for certain financial instruments recorded at fair value.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 6321593 Canada Inc., Linear Metals Corporation of Kenya Limited, and Minera Zapoteca, S.A. de C.V. All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts are expressed in Canadian dollars, unless otherwise noted.

### b) Resource properties and related deferred costs

The Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold, abandoned or considered to be impaired. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Resource properties are reviewed for impairment on a property by property basis whenever events or changes in circumstances indicate that the carrying amount of a resource property may not be recoverable. If the Company has sufficient information about a resource property to estimate future cash flows expected to be generated by the resource property, then recoverability is measured by a comparison of the carrying amount to the estimated cash flows. If the Company does not have sufficient information about the resource property to estimate future cash flows expected to be generated by the resource property, then the carrying amount is compared to the estimated fair value. If the carrying amount exceeds the estimated future cash flows or estimated fair value, the resource property will be written down to its estimated fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Impairment losses for resource properties are reversed if the conditions that gave rise to the impairment are no longer present and it has been determined that the asset is no longer impaired or the impairment has been reduced as a result. This reversal is recognized in the consolidated statement of comprehensive loss and is limited to the carrying value that would have been determined had no impairment charge been recognized in prior years.

## 3 Significant accounting policies (continued)

### b) Resource properties and related deferred costs (continued)

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions; however, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized resource property carrying values. Conversely, properties which have been written down may represent future value of the Company in excess of management's estimates and/or the carrying values of the properties.

### c) Property option agreements

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

### d) Cash

Cash consists of cash on hand, balances with banks and cash held in trust by a Kenyan law firm related to the financing that closed on October 31, 2013 (see note 10).

### e) Foreign currency

Transactions in currencies other than the entity's functional currency, which is the Canadian dollar for all entities, ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for expenses that relate to non-monetary assets or liabilities, which are translated at the same historical exchange rate as the related asset or liability. Gains and losses on translation are included in the determination of loss for the years.

### f) Deferred income taxes

Income taxes are comprised of current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

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

## 3 Significant accounting policies (continued)

### f) Deferred income taxes (continued)

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that is probable that the assets can be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### g) Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the Income Tax Act (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances are renounced to the flow-through shareholders.

At the time of share issuance, the proceeds are allocated between share capital and the obligation to deliver the tax deduction. The allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares (given no other differences between the securities).

In accordance with IFRS, deferred income taxes related to the temporary differences created by the renouncement of flow-through share tax benefits to subscribers are recorded on a pro-rata basis when the qualified expenditures are incurred. This can occur either before or after the formal renunciation of expenditures is filed with tax authorities. When the qualified expenditures are incurred, the tax value of the renunciation is recorded on a pro-rata basis as a deferred income tax liability with a corresponding charge to income tax expense in the consolidated statement of comprehensive loss. Additionally, as qualified expenditures are incurred, the Company recognizes a pro-rata reduction of the flow-through premium liability as a recovery of deferred income taxes in the consolidated statement of comprehensive loss.

### h) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount.

### i) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining-balance method at the annual rate of 30% for office equipment and exploration equipment.

## 3 Significant accounting policies (continued)

### j) Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share is equal to loss per share since the exercise of all options and warrants is anti-dilutive.

### k) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to share-based compensation in shareholders' equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the estimated fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash consideration received on exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

### l) Critical accounting estimates and judgments

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ materially from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

**Recoverability of resource properties**

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

## 3 Significant accounting policies (continued)

### l) Critical accounting estimates and judgments (continued)

**Recoverability of resource properties** (continued)

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

**Deferred income taxes**

The Company is periodically required to estimate the tax base of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for gold, production costs, quantities of proven and probable reserves, interest rates, and foreign currency exchange rates.

**Share-based payments**

The Company makes certain estimates and assumptions when calculating the estimated fair values of stock options granted and warrants issued. The significant assumptions used include estimate of expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for grants of stock options and the issuance of warrants.

**Valuation of convertible debentures and warrants**

On October 31, 2013, the Company issued convertible debentures and warrants for gross proceeds of $1,197,196 (see note 10). The fair value of the various components, including the warrants, embedded derivatives, convertible debentures and the equity component of the convertible debentures, must be calculated initially in order to allocate the proceeds to the various components. The valuation of these components is complex, as there is no active trading market for these items. The valuation of these components considers factors such as, limited available market information, management's assumptions of expected cash flows related to the instruments, including reasonably possible alternative assumptions, maturity dates and expected return of capital on a discounted basis.

## 3 Significant accounting policies (continued)

### l) Critical accounting estimates and judgments (continued)

**Valuation of convertible debentures and warrants** (continued)

Based on management's analysis, $1,092,196 has been allocated to the liability components of these instruments and $105,000 has been allocated to the equity components. If management determined that there was an increase or decrease of 5% of the total value to the amount allocated to the liability components, the amount initially allocated to the liability would increase or decrease by approximately $60,000, with an offsetting decrease or increase of $60,000 to the equity components.

As the instruments were issued on October 31, 2013, there is no impact to the consolidated statement of comprehensive loss during the year ended October 31, 2013.

### m) Changes to accounting policies

*Amendments to standards*

IAS 1, "Presentation of Financial Statements," has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment was effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. There were no changes to the consolidated statement of income and financial position as a result of the adoption of these changes.

### n) Accounting standards issued but not yet applied

The Company does not expect to early adopt the following new, revised or amended standards and amendments. Accordingly, the Company expects to adopt these standards as set forth below.

*IFRS 9, Financial Instruments*

The International Accounting Standards Board ("IASB") has issued IFRS 9, "Financial Instruments" ("IFRS 9"), effective no earlier than for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company has not yet assessed the impact of IFRS 9 on its consolidated statements of comprehensive loss and financial position.

*IFRS 10, Consolidated Financial Statements*

The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements. The Company is assessing the impact of IFRS 10 on its consolidated statements of comprehensive loss and financial position.

## 3 Significant accounting policies (continued)

### n) Accounting standards issued but not yet applied (continued)

*IFRS 11, Joint Ventures*

The IASB issued IFRS 11, "Joint Ventures" ("IFRS 11"), effective for annual periods beginning on or after January 1, 2013. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") was amended to reflect the guidance provided in IFRS 10 and IFRS 11. The Company is assessing the impact of IFRS 11 on its consolidated financial statements.

*IFRS 12, Disclosure of Interests in Other Entities*

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), effective for annual periods beginning on or after January 1, 2013. IFRS 12 requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. As this standard relates to disclosure, there will be no changes to the consolidated statements of comprehensive loss or financial position. The Company continues to evaluate additional disclosures required.

*IFRS 13, Fair Value Measurement*

The IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. The Company is assessing the impact of IFRS 13 on its consolidated statements of comprehensive loss and financial position.

## 4 Financial instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net income (loss) in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Accumulated Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to net loss.

## 4 Financial instruments (continued)

The Company has implemented the following classifications:

- Cash and restricted cash are classified as "Loans and Receivables." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

- Marketable securities are classified as "Available-for-Sale". Financial assets classified as Available-for-Sale are recognized initially at fair values plus transaction costs and are subsequently carried at fair value, with changes in the fair value recorded in other comprehensive income.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

- Embedded derivatives are classified as "Financial Assets or Financial Liabilities at Fair Value through Profit or Loss". The convertible debentures issued on October 31, 2013 included certain embedded derivatives, which are included in convertible debentures on the statement of financial position. After initial recognition at fair value, the embedded derivatives are remeasured each period at fair value with changes in fair value recognized in non-operating income in the consolidated statement of comprehensive loss. As these embedded derivatives were issued on October 31, 2013, there was no impact to the consolidated statement of comprehensive loss for the year ended October 31, 2013.

### a) Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash, restricted cash and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

### b) Foreign currency rate risk

A portion of the Company's transactions occur in United States, Mexican and Kenyan currencies; accordingly, the related financial assets are subject to fluctuations in the respective exchange rates.

### c) Concentration of credit risk

Management does not believe it is exposed to any significant concentration of credit risk except that a significant portion of its cash and restricted cash are on deposit with major Canadian and Kenyan banks or held in trust by a Kenyan law firm. All of the sales taxes recoverable are with either the government of Canada or the government of Mexico.

### d) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due (see note 2).

## 4 Financial instruments (continued)

### e) Interest rate risk

The Company has cash; accordingly, the Company's interest income is susceptible to fluctuations in interest rates. The convertible debentures were issued on October 31, 2013. The payments required on the convertible debentures are subject to a number of factors, as outlined in note 10, which results in interest rate risk.

## 5 Capital management

The Company's capital structure consists of share capital, equity portion of convertible debentures, warrants and contributed surplus, which at October 31, 2013 totalled $26.9 million (2012 - $26.1 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 6 Property and equipment

| | Office equipment $ | Exploration equipment $ | Total $ |
|---|---|---|---|
| *Cost* | | | |
| **Balance as at October 31, 2011** | 79,562 | 87,272 | 166,834 |
| Additions | 3,857 | 13,572 | 17,429 |
| Disposals | – | (35,371) | (35,371) |
| **Balance as at October 31, 2012** | 83,419 | 65,473 | 148,892 |
| Additions | – | 258 | 258 |
| Disposals | (53,242) | (33,795) | (87,037) |
| **Balance as at October 31, 2013** | 30,177 | 31,936 | 62,113 |
| *Accumulated amortization* | | | |
| **Balance as at October 31, 2011** | 56,156 | 68,463 | 124,619 |
| Additions | 8,050 | 5,150 | 13,200 |
| Disposals | – | (31,542) | (31,542) |
| **Balance as at October 31, 2012** | 64,206 | 42,071 | 106,277 |
| Additions | 4,567 | 5,968 | 10,535 |
| Disposals | (46,535) | (29,426) | (75,961) |
| **Balance as at October 31, 2013** | 22,238 | 18,613 | 40,851 |
| *Carrying amounts* | | | |
| **As at October 31, 2012** | 19,213 | 23,402 | 42,615 |
| **As at October 31, 2013** | 7,939 | 13,323 | 21,262 |

## 7 Resource properties

The Company's resource properties consist of the following:

| | Kenya | Canada | | | Mexico | |
|---|---|---|---|---|---|---|
| | Nyanza $ | KM61 $ | Seymour Lake $ | Other $ | La Morena and Other $ | Total $ |
| **Balance as at October 31, 2011** | 1,244,610 | 8,401,173 | 1,119,531 | 5,000 | 726,529 | 11,496,843 |
| Additions incurred during the year | 1,409,327 | 12,400 | 8,187 | 1,000 | 27,043 | 1,457,957 |
| Proceeds from option payments | – | – | – | (6,000) | – | (6,000) |
| Impairment write-down | – | (4,405,173) | – | – | – | (4,405,173) |
| **Balance at October 31, 2012** | 2,653,937 | 4,008,400 | 1,127,718 | – | 753,572 | 8,543,627 |
| Additions incurred during the year | 247,633 | 14,734 | 2,636 | – | 85,215 | 350,218 |
| **Balance at October 31, 2013** | 2,901,570 | 4,023,134 | 1,130,354 | – | 838,787 | 8,893,845 |

### Kenya

### i) Nyanza

The Company has an agreement with East African Pure Gold Limited ("EAPG") and B&M Mining Company Limited ("B&M") to earn an interest in three mineral exploration concessions located in Kenya. Under the terms of the agreement, the Company has:

- A first option to earn a 70% interest on completing exploration expenditures of US $600,000 and making cash payments of US $300,000 to EAPG and B&M by August 2016. The required exploration expenditures have been incurred, and a cash payment of US$3,000 has been made to date.

- A second option to earn an 80% interest by exercising the first option and incurring cumulative exploration expenditures of US $4 million.

- Within 90 days of completion of the second option, EAPG and B&M can deliver a one-time joint election to fund its 20% share of exploration costs, or EAPG and B&M can grant the Company a further option to acquire an additional 10% interest by funding additional exploration expenditures of US $10 million. The Company will remain the operator on the concessions and is not obligated to incur additional exploration expenditures.

- Within 90 days of completion of a positive feasibility study and receipt of a production notice from the Company for each project, EAPG and B&M can deliver a one-time joint election to fund its 10% share of the construction costs, or EAPG and B&M can grant the Company a further option to acquire an additional 5% interest by funding additional costs of US $10 million. The Company is not obligated to advance a project, covered by a feasibility study, to production.

- The Company maintains a 100% right to any surface mineralization to a depth of 1 meter below saprolite.

SPL 214, which is part of the Nyanza property, is subject to a 2% net smelter royalty. 1% of the net smelter royalty is payable to African Queen Mines Limited ("AQ"), and 1% is payable to AQ's partner, Abba Mining Company Limited.

## 7 Resource properties (continued)

### Canada

### i) KM61

The Company holds a 100% interest in the KM61 property, which is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The majority of the KM61 property, including the mineralized zone, is subject to a 0.5% net smelter royalty. Of the remaining claims on the KM61 property, certain portions are subject to a 3% net smelter royalty and the balances are not subject to any royalties. The Company can repurchase 50% of the 0.5% net smelter royalty for $250,000 and/or 50% of the 3% net smelter royalty for $1.0 million.

During the year ended October 31, 2012, the Company identified various indicators of impairment of the property, including declines in the prices of molybdenum, copper and silver, a lack of recent exploration work with no significant exploration work planned in the foreseeable future, as well as a strategic shift in the Company's exploration focus towards its Kenyan operations. Given the stage of exploration of the property, the estimated fair value of $4 million was determined based on a review of comparable sale transactions of resource properties. The resulting impairment charge of $4.4 million was charged to expenses. This write-down was approximately 50% of the carrying value prior to the recorded impairment.

As at October 31, 2013, the Company determined that there were no indicators of additional impairment or impairment reversals. Management is currently assessing options to fund additional exploration of KM61.

As at October 31, 2013 or 2012, if it were determined that the estimated fair value of the property should have been 10% higher or lower, this would result in an increase or decrease of the impairment charge by approximately $400,000. The manner and amount of the ultimate realisation of the KM61 property remains subject to significant uncertainty.

### ii) Seymour Lake

The Company holds a 100% interest in the Seymour Lake property, which is a tantalum-lithium-beryllium prospect located in northwestern Ontario, in the Crescent Lake area of the Thunder Bay Mining District. Certain portions of the Seymour Lake property are subject to a 3% net smelter return royalty, of which 1.5% can be purchased by the Company for $1.0 million.

### iii) Other

On November 4, 2010, the Company entered into two separate option agreements to acquire up to a 100% interest, subject to certain net smelter royalties, in two early-stage exploration properties in Ontario, Canada by making payments and incurring exploration expenditures over a two year period.

During the year ended October 31, 2012, the Company signed a formal agreement with Greencastle Resources Ltd. ("Greencastle"), whereby the Company assigned all rights, title, and interest in and to the option of these two properties to Greencastle. Consideration by Greencastle for the assignment of the option agreements consisted of an initial payment of $20,000 and issuance to the Company of 100,000 common shares of Greencastle, valued at $12,000, which were received by the Company during the prior year. On the first anniversary of the agreement, Greencastle may elect to continue the options and make a final payment to the Company of up to $20,000 and an additional 100,000 common shares of Greencastle. The properties are subject to a 2% net smelter royalty. Greencastle has the option to purchase half of each royalty for $1.0 million and has granted the Company the right to purchase 25% of this purchased royalty for $0.5 million.

## 7 Resource properties (continued)

### Mexico

#### i) La Morena and Other

The Company holds a 100% interest in the La Morena property, located in the state of Coahuila, Mexico. The Company continues to investigate other property opportunities in Mexico.

## 8 Accounts payable and accrued liabilities

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Trade accounts payable and accrued liabilities | 618,548 | 611,336 |
| Amounts payable to related parties | 296,887 | 268,504 |
| Withholdings and taxes payable | 6,889 | 2,287 |
| | 922,324 | 882,127 |

## 9 Capital stock

### a) Authorized

Unlimited number of common shares without par value.

**b)** Changes in the Company's issued common share capital during the years ended October 31, 2013 and 2012 were as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number | Amount<br>$ | Number | Amount<br>$ |
| **Opening balance** | 74,781,934 | 21,802,576 | 62,070,326 | 20,428,607 |
| Shares issued pursuant to private placements | 5,197,160 | 519,716 | 11,000,000 | 1,100,000 |
| Shares issued as finder's fees | 351,406 | 35,141 | 350,000 | 35,000 |
| Shares issued on confirmation of mineral claims and acquisition of technical data | – | – | 949,658 | 203,480 |
| Collection of subscriptions receivable | – | – | 411,950 | 80,458 |
| | 80,330,500 | 22,357,433 | 74,781,934 | 21,847,545 |
| Less: Share issue costs | – | (50,043) | – | (44,969) |
| **Closing balance** | 80,330,500 | 22,307,390 | 74,781,934 | 21,802,576 |

## 9 Capital stock (continued)

### c) Shares and units issued for cash

On March 14, 2013, the Company completed a non-brokered private placement of 5.2 million common shares priced at $0.10 per share, for total gross proceeds of $519,716. In connection with the financing, 351,406 shares of the Company were issued as finders' fees, valued at $35,141. Other share issuance costs to complete the financing were $14,902, consisting of professional fees, regulatory costs, and a 7% finders' fee valued at $1,240. A director of the Company subscribed for 1,004,016 common shares pursuant to the private placement.

On June 15, 2012, the Company completed a non-brokered private placement of 11 million common shares priced at $0.10 per share, for total gross proceeds of $1.1 million. In connection with the financing, 350,000 shares of the Company were issued as finders' fees, valued at $35,000. Additional share issuance costs to complete the financing were $9,969, consisting of professional fees and regulatory costs. Officers and directors of the Company subscribed for 1.75 million common shares pursuant to the private placement. All securities issued in connection with the financing were subject to a four-month hold period.

During the year ended October 31, 2012, the Company issued 949,658 common shares to AQ in connection with a settlement agreement announced on November 28, 2011. The settlement agreement related to a dispute over certain mineral claims within the Nyanza Project and included the acquisition of certain project-related data by the Company from AQ for US$500,000, of which US$200,000 was paid through the issuance of 949,658 common shares of the Company, US$150,000 was paid in cash, and the remaining US$150,000 has been recorded as a liability in these consolidated financial statements and was paid in December 2012.

### d) Stock option plan

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than closing share price of the day preceding the date of grant.

## 9 Capital stock (continued)

### d) Stock option plan (continued)

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options. Weighted average assumptions used in the pricing model for the years ended October 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Risk-free rate | 1.17% | 1.01% |
| Expected volatility of the Company's share price | 156% | 138% |
| Expected dividend yield | 0% | 0% |
| Expected life of each option | 4.2 years | 3.9 years |
| Weighted average grant date fair value per option | | |
| Exercise price equal to stock price on date of grant | $0.05 | $0.09 |
| Exercise price exceeds stock price on date of grant | $0.07 | $0.18 |

Option activity for the years ended October 31, 2013 and 2012 is as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price $ | Number | Weighted average exercise price $ |
| Opening balance | 5,425,000 | 0.27 | 4,600,000 | 0.31 |
| Granted | 1,620,000 | 0.09 | 1,950,000 | 0.20 |
| Expired/forfeited | (555,000) | 0.95 | (1,125,000) | 0.31 |
| Ending balance | 6,490,000 | 0.17 | 5,425,000 | 0.27 |

## 9 Capital stock (continued)

### d) Stock option plan (continued)

As at October 31, 2013, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

| Weighted average exercise price per share $ | Number outstanding | Expiry date | Weighted average remaining contractual life (years) | Number exercisable |
|---|---|---|---|---|
| 0.04 | 50,000 | July 23, 2018 | 4.73 | – |
| 0.05 | 50,000 | August 20, 2018 | 4.81 | – |
| 0.07 | 150,000 | April 12, 2018 | 4.45 | 37,500 |
| 0.10 | 700,000 | September 30, 2017 | 3.92 | 350,000 |
| 0.10 | 1,140,000 | January 17, 2018 | 4.22 | 285,000 |
| 0.10 | 100,000 | January 21, 2018 | 4.23 | 25,000 |
| 0.10 | 100,000 | March 13, 2018 | 4.37 | 25,000 |
| 0.14 | 150,000 | August 3, 2015 | 1.76 | 150,000 |
| 0.15 | 2,175,000 | August 24, 2014 | 0.81 | 2,175,000 |
| 0.25 | 700,000 | December 1, 2016 | 3.09 | 525,000 |
| 0.27 | 250,000 | November 8, 2015 | 2.02 | 250,000 |
| 0.28 | 200,000 | October 21, 2014 | 0.97 | 200,000 |
| 0.30 | 725,000 | June 7, 2016 | 2.60 | 725,000 |
| 0.17 | 6,490,000 | | 2.52 | 4,747,500 |

As at October 31, 2013, 1,543,050 options were available for granting under the Plan (2012 - 2,053,193 options).

The estimated value of options earned during the year ended October 31, 2013 was $171,907 (2012 - $213,255). The Company capitalized $12,809 (2012 - $38,438) in non-cash share-based compensation expense to resource properties with the balance of $159,098 (2012 - $174,817) charged to operations.

## 10 Convertible debentures

On October 31, 2013, the Company completed a private placement of 1,196 units at a price of $1,001 per unit for aggregate gross proceeds of $1,197,196. The proceeds of the financing will be used to fund expenditures, including a two-phased exploration and potential surface gold recovery program at the Company's Nyanza Project:

- Phase I - sampling, metallurgy, permitting and plant equipment procurement; and

- Phase II – capital investment and plant operation. At the Company's discretion, it will only proceed with Phase II pending a successful Phase I.

## 10 Convertible debentures (continued)

If the Company does not elect to proceed to Phase II, it will convert 25% of the gross proceeds to common shares at a price of $0.10 per share and $897,897, which is 75% of the gross proceeds, will be repaid to the investors. Until the Company decides to proceed to Phase II, 75% of the gross proceeds, being $897,897, will be held in trust with a Kenyan law firm and the investors are entitled to any interest earned on these funds. As the $897,897 related to Phase II, which is held in trust with the Kenyan law firm, is subject to restrictions as noted above, the amount is reflected as restricted cash on the consolidated statement of financial position. At October 31, 2013, the remaining proceeds of $299,299 were held in trust with the Kenyan law firm but were not subject to restrictions.

If the Company elects to proceed to Phase II, these rights will be forfeited and each investor will be entitled to receive:

- a repayment of the convertible debenture in the amount of 100% of the investment ($1,000 per unit) based on 75% of free cash flow generated from the surface gold recovery project;

- a right to purchase a preferred share in Stockport Mining Kenya (SMK), a subsidiary of the Corporation to be incorporated at the commencement of Phase II. $1 per unit will be allocated to the cost of the preferred share. The preferred share will pay a premium entitlement of 110% of the original investment ($1,100 per unit) from 75% of free cash flow generated from the gold recovery project and is then redeemed by SMK; and

- if the amount of the debenture plus the 110% premium entitlement is not paid within the five year maturity date of October 31, 2018, then the amount of debt and premium entitlement, less any repayments to that date, will be converted into common shares of the Company at a conversion price of $0.50 per share.

Under the terms of this financing the Company issued 1,000 warrants with each unit. The 1,196,000 warrants are exercisable at the commencement of Phase II, at a price of $0.10 per share and expire on October 31, 2018.

The proceeds and issue costs of the convertible debenture financing have been allocated as follows:

| | $ |
|---|---|
| Convertible debentures | 1,092,196 |
| Equity portion of convertible debentures | 75,000 |
| Warrants | 30,000 |
| | 1,197,196 |
| Convertible debentures | 1,092,196 |
| Less issue costs including legal and listing fees and commissions (3% in cash and 4% in shares to be issued) | (125,069) |
| | 967,127 |

## 11 Warrants

a) Warrant activity for the years ended October 31, 2013 and 2012 was as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Number | Exercise price per warrant $ | Amount $ | Number | Exercise price per warrant $ | Amount $ |
| **Opening balance** | 3,074,375 | 0.35 | 318,508 | 2,868,400 | 0.35 | 295,978 |
| Issued for cash (note 10) | 1,196,000 | 0.10 | 30,000 | – | – | – |
| Subscriptions receivable | – | – | – | 205,975 | 0.35 | 22,530 |
| Expired | (3,074,375) | 0.35 | (318,508) | – | – | – |
| **Closing balance** | 1,196,000 | 0.10 | 30,000 | 3,074,375 | 0.35 | 318,508 |

b) Warrants outstanding as of October 31, 2013:

| Expiry date | Number | Weighted average exercise price $ | Number of exercisable warrants |
|---|---|---|---|
| October 31, 2018 | 1,196,000 | 0.10 | – |

## 12 Contributed surplus

| | $ |
|---|---|
| **Balance at October 31, 2011** | 3,789,907 |
| Value of options earned | 213,255 |
| **Balance at October 31, 2012** | 4,003,162 |
| Value of options earned | 171,907 |
| Value of warrants expired, net of tax | 273,508 |
| **Balance at October 31, 2013** | 4,448,577 |

## 13 Income taxes

### a) Reconciliation of total tax recovery

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Loss before income taxes | (629,082) | (5,347,656) |
| Income tax rate | 28% | 26% |
| Expected income tax recovery | (176,000) | (1,390,000) |
| Non-deductible share based compensation | 45,000 | 45,000 |
| Unutilized losses | 41,000 | 986,000 |
| Other | 45,000 | (145,000) |
| Income tax recovery | (45,000) | (504,000) |

### b) Deferred income taxes

The following reflects deferred income tax assets (liabilities):

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Deferred tax assets (liabilities)** | | |
| Non-capital losses carried forward | 248,000 | 332,000 |
| Deductible share issue costs | 47,000 | 11,000 |
| Accounting value of mineral resources properties in excess of tax value | (327,000) | (369,000) |
| Tax value of property and equipment and prepaid expenses in excess of accounting value | 32,000 | 26,000 |
| **Net deferred income tax liability recognized** | – | – |

The Company also has the following approximate net deferred tax assets, primarily related to foreign operations which have not been recognized:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Net deferred tax assets – not recognized | 2,884,000 | 2,798,000 |

## 13 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately $4,707,000 which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

| | $ |
|---|---|
| Year ending October 31, 2027 | 85,000 |
| 2028 | 1,290,000 |
| 2029 | 672,000 |
| 2030 | 676,000 |
| 2031 | 825,000 |
| 2032 | 842,000 |
| 2033 | 317,000 |
| | 4,707,000 |

The Company has undeducted share issuance costs of approximately $168,000, which will be deducted from Canadian taxable income over the next four years. The Company has also incurred resource expenditures of approximately $6,115,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

In addition, the Company has accumulated Mexican tax losses of approximately $8,082,000, which may be carried forward and used to reduce taxable income from Mexico in future years. These losses expire as follows:

| | $ |
|---|---|
| Year ending October 31, 2017 | 3,363,000 |
| 2018 | 3,700,000 |
| 2021 | 1,019,000 |
| | 8,082,000 |

## 14 Contingency

The Company has an employment arrangement with the President and CEO of the Company which provides that, should a change in control event occur, the President may elect to terminate his employment with the Company, in which event the Company is required to pay the President a lump sum payment equal to 2.5 times his annual salary. The Company also has a consulting arrangement with the Chairman of the Company which provides that, should a change in control event occur, the Chairman may elect to terminate his arrangement with the Company, in which event the Company is required to pay the Chairman a lump sum payment equal to 2.0 times his annual remuneration. The payment of these change in control settlements would be subject to the Company maintaining an average market capitalization in excess of CDN$25 million, based on any 10-day volume weighted trading price within the three-month period following the effective date of the change in control.

## 15 Segmented information

The Company conducts mineral operations in Canada, Kenya and Mexico and is searching for mineral exploration opportunities worldwide. There is no segmented revenue or operating results to report however, the geographical information regarding the Company's total assets is as follows:

| | | | | | 2013 |
|---|---|---|---|---|---|
| | | Mineral Operations | | | |
| | Corporate Canada $ | Canada $ | Mexico $ | Kenya $ | Total $ |
| Current assets | 37,063 | – | 21,037 | 1,199,808 | 1,257,908 |
| Marketable securities | 7,000 | – | – | – | 7,000 |
| Property and equipment | 7,939 | 231 | – | 13,092 | 21,262 |
| Resource properties | – | 5,153,488 | 838,787 | 2,901,570 | 8,893,845 |
| | 52,002 | 5,153,719 | 859,824 | 4,114,470 | 10,180,015 |

| | | | | | 2012 |
|---|---|---|---|---|---|
| | | Mineral Operations | | | |
| | Corporate Canada $ | Canada $ | Mexico $ | Kenya $ | Total $ |
| Current assets | 385,180 | – | 35,471 | 6,159 | 426,810 |
| Marketable securities | 9,000 | – | – | – | 9,000 |
| Property and equipment | 19,213 | 6,570 | – | 16,832 | 42,615 |
| Resource properties | – | 5,136,118 | 753,572 | 2,653,937 | 8,543,627 |
| | 413,393 | 5,142,688 | 789,043 | 2,676,928 | 9,022,052 |

## 16 Related party transactions

During the year ended October 31, 2013, a director of the Company subscribed for 1,004,016 common shares as part of the non-brokered private placement financing completed by the Company on March 14, 2013.

During the year ended October 31, 2012, officers and directors of the Company subscribed for 1.75 million of the common shares issued pursuant to the private placement that was completed by the Company on June 15, 2012, and a director of the Company provided debt financing in the amount of $75,000 to the Company in the form of a demand loan, bearing interest at an annual rate of 10%. All amounts were repaid to the director, with interest of $715, prior to October 31, 2012.

## 17 Compensation of key management

Key management includes all Directors, including Executive and Non-Executive Directors, as well as the President and Chief Executive Officer, the Chief Financial Officer and the Vice-President of Exploration. Compensation earned by key management is summarized as follows:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Salaries and director fees earned | 243,238 | 538,963 |
| Share-based compensation | 151,835 | 186,080 |
| | 395,073 | 725,043 |