# Stockport Exploration Inc.

Consolidated Financial Statements
**October 31, 2016 and 2015**

February 17, 2017

## 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 of Directors 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

February 17, 2017

**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, 2016 and October 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended 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, 2016 and October 31, 2015 and the results of their operations and their cash flows for the years then ended 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 describes 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 Professional Accountants, Licensed Public Accountants**

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# Stockport Exploration Inc.

Consolidated Statements of Financial Position

**As at October 31, 2016 and October 31, 2015**

(in Canadian dollars)

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 18,989 | 178,503 |
| Sales taxes recoverable | 4,306 | 5,852 |
| Marketable securities | 561,354 | 5,500 |
| Prepaid expenses and deposits | 8,051 | 4,710 |
| | 592,700 | 194,565 |
| **Property and equipment** (note 6) | 5,260 | 8,174 |
| **Resource properties** (note 7) | 4,253,105 | 9,225,472 |
| | 4,851,065 | 9,428,211 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 8) | 1,581,817 | 1,237,137 |
| Line of credit (note 17) | 211,468 | 250,000 |
| Current portion of convertible debentures (note 10) | – | 560,000 |
| | 1,793,285 | 2,047,137 |
| **Convertible notes** (note 11) | 255,000 | 225,000 |
| **Long-term portion of convertible debentures** (note 10) | 125,705 | 1,175,381 |
| | 2,173,990 | 3,447,518 |
| **Shareholders' equity** | 2,677,075 | 5,980,693 |
| | 4,851,065 | 9,428,211 |

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

**Contingency** (note 15)

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

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

(signed) "*James Megann*"
Director

(signed) "*Carl Sheppard*"
Director

# Stockport Exploration Inc.

## Consolidated Statements of Loss and Comprehensive Loss

**For the years ended October 31, 2016 and October 31, 2015**

(in Canadian dollars)

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Expenses** | | |
| Amortization | 795 | 1,532 |
| Banking fees | 3,098 | 3,397 |
| General and administrative | 41,100 | 54,789 |
| Investor relations and marketing | 720 | 6,265 |
| Listing and regulatory costs | 36,365 | 61,250 |
| Management salaries and fees | 221,950 | 245,373 |
| Management services (note 17) | 69,000 | 102,000 |
| Professional services | 105,257 | 27,523 |
| Share-based compensation (note 9) | 30,378 | 47,943 |
| Travel | 4,581 | 5,714 |
| Write-down of pilot project, net of proceeds (note 7) | 1,746,623 | – |
| Write-down of resource property (note 7) | 2,944,517 | 355,354 |
| | 5,204,384 | 911,140 |
| **Other income (expenses)** | | |
| Accretion expense (note 11) | (30,000) | (20,000) |
| Change in fair value of convertible debenture liability (note 10) | 1,609,676 | 95,925 |
| Foreign exchange | 259 | 6,314 |
| Interest income | 29,085 | 2,046 |
| Interest expense | (44,486) | (11,810) |
| Write-down of capital assets (note 6) | – | (1,383) |
| | 1,564,534 | 71,092 |
| **Net loss for the year** | (3,639,850) | (840,048) |
| **Items that may be reclassified subsequently to net loss** | | |
| Unrealized gain (loss) on marketable securities | 305,854 | (500) |
| **Comprehensive loss for the year** | (3,333,996) | (840,548) |
| **Loss per share – Basic and diluted** | (0.04) | (0.01) |
| **Weighted average number of common shares outstanding** | 88,653,128 | 81,758,110 |

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, 2016 and October 31, 2015**

(in Canadian dollars)

| | Number | Share capital $ | Equity portion of convertible notes $ | Warrants $ | Contributed surplus $ | Accumulated other comprehensive gain (loss)[1] $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| | (note 9) | (note 9) | (note 11) | (note 12) | (note 13) | | | |
| **Balance October 31, 2014** | 80,450,220 | 22,319,362 | – | 30,000 | 4,603,558 | (6,000) | (20,587,257) | 6,359,663 |
| Net loss for the year | – | – | – | – | – | – | (840,048) | (840,048) |
| Other comprehensive loss for the year[1] | – | – | – | – | – | (500) | – | (500) |
| Comprehensive loss for the year | – | – | – | – | – | (500) | (840,048) | (840,548) |
| Units issued pursuant to private placements (note 9) | 7,843,750 | 263,750 | – | 50,000 | – | – | – | 313,750 |
| Private placement issue costs | – | (21,465) | – | (4,651) | – | – | – | (26,116) |
| Shares issued as finders' fees | 359,158 | 35,916 | – | – | – | – | – | 35,916 |
| Equity portion of convertible notes (note 11) | – | – | 90,000 | – | – | – | – | 90,000 |
| Share-based compensation | – | – | – | – | 48,028 | – | – | 48,028 |
| **Balance October 31, 2015** | 88,653,128 | 22,597,563 | 90,000 | 75,349 | 4,651,586 | (6,500) | (21,427,305) | 5,980,693 |
| Net loss for the year | – | – | – | – | – | – | (3,639,850) | (3,639,850) |
| Other comprehensive gain for the year[1] | – | – | – | – | – | 305,854 | – | 305,854 |
| Comprehensive loss for the year | – | – | – | – | – | 305,854 | (3,639,850) | (3,333,996) |
| Share-based compensation | – | – | – | – | 30,378 | – | – | 30,378 |
| **Balance October 31, 2016** | 88,653,128 | 22,597,563 | 90,000 | 75,349 | 4,681,964 | 299,354 | (25,067,155) | 2,677,075 |

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

[1] As at October 31, 2016 and 2015, the other comprehensive gain (loss) for the years and the accumulated other comprehensive gain (loss) at the end of the years are comprised of the net unrealized gain (loss) on available-for-sale securities.

# Stockport Exploration Inc.

Consolidated Statements of Cash Flows

**For the years ended October 31, 2016 and October 31, 2015**

(in Canadian dollars)

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Cash and cash equivalents provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | (3,639,850) | (840,048) |
| Adjustments to income not involving cash | | |
| Amortization | 795 | 1,532 |
| Share-based compensation | 30,378 | 47,943 |
| Write-down of capital assets | – | 1,383 |
| Change in fair value of convertible debenture liability | (1,609,676) | (95,925) |
| Interest income (note 7) | (29,085) | – |
| Accretion expense | 30,000 | 20,000 |
| Write-down of pilot project | 1,779,288 | – |
| Write-down of resource properties | 2,944,517 | 355,354 |
| | (493,633) | (509,761) |
| Net change in non-cash working capital balances related to operations | | |
| Decrease (increase) in sales taxes recoverable | (256) | 6,547 |
| Decrease (increase) in prepaid expenses and deposits | (3,341) | 8,590 |
| Increase in accounts payable and accrued liabilities | 219,623 | 440,217 |
| | (277,607) | (54,407) |
| **Financing activities** | | |
| Cash received upon convertible note financing | – | 295,000 |
| Common shares issued for cash, net of issuance costs | – | 287,634 |
| Cash received from (paid on) line of credit | (38,532) | 250,000 |
| | (38,532) | 832,634 |
| **Investing activities** | | |
| Resource property interests and options, net of proceeds on equipment of $32,665 (note 7) | (195,177) | (946,883) |
| Sales taxes recoverable related to resource property interests | 1,802 | (427) |
| Cash received pursuant to option agreements (note 7) | 350,000 | – |
| | 156,625 | (947,310) |
| **Net change in cash during the year** | (159,514) | (169,083) |
| **Cash – Beginning of year** | 178,503 | 347,586 |
| **Cash – End of year** | 18,989 | 178,503 |
| **Non-cash financing activities** | | |
| Common shares issued as a cost of financing (note 9) | – | 35,916 |
| Common shares received on option agreement (note 7) | 250,000 | – |

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, 2016, the Company incurred a net loss of approximately $3.6 million (2015 - $0.8 million) and as at October 31, 2016 had an accumulated deficit of approximately $25.1 million (2015 - $21.4 million). The Company has no income or cash inflow from operations and at October 31, 2016 had a negative working capital balance of approximately $1.2 million (2015 - $1.9 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 consolidated 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 consolidated financial statements for issue on February 16, 2017.

## 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., Stockport Exploration of Kenya Limited, Stockport Mining 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 statements of loss and 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 and balances with banks.

### 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 consolidated statements of financial position 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 statements of loss and 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 consolidated statements of financial position 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 prior to October 31, 2013 through the issue of flow-through shares and can reasonably expect to finance a portion of its future 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 statements of loss and 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 statements of loss and 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 (note 17).

### 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 or recorded as additions to resource properties based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus 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) Warrants

The warrants issued as part of the private placement as units are valued using the residual method.

### m) 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 consolidated 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:

## 3 Significant accounting policies (continued)

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

**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 or planned, and results of exploration and evaluation activities on the exploration and evaluation assets.

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 commodities, 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.

## 3 Significant accounting policies (continued)

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

**Valuation of convertible debentures**

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 and then the fair value of the liability components are calculated at each reporting date. The valuation is complex, as there is no active trading market for these items and is based on significant unobservable inputs. The valuation 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.

Based on management's analysis as at October 31, 2016, the fair value of the liability component of the convertible debenture instrument is $125,705. As at October 31, 2016, the Company has estimated the fair value of the convertible debenture liability based upon its full settlement obligation to issue 5,028,223 common shares at the maturity date of October 31, 2018. The Company estimated the fair value of its obligation to issue these shares based on the market trading price of $0.025 per share as of October 31, 2016. If the share price was $0.01 per share higher or lower, the fair value of the convertible debenture liability would increase or decrease by approximately $50,000.

Based on management's analysis as at October 31, 2015, the fair value of the liability component of the convertible debenture instrument was $1,735,381 (October 31, 2014 - $1,831,306). The Company has estimated the fair value of this liability based on the net present value of 75% of projected future cash flows from operating the surface gold recovery program until October 31, 2018, using a discount rate of 20%. If a discount rate of 25% had been used, this would have resulted in the liability and comprehensive loss being $134,000 lower.

**Valuation processes**

The Company's finance department is responsible for performing the valuation of fair value measurements included in the consolidated financial statements, including Level 3 fair values. The valuation processes and results for recurring measurements are reviewed and approved by the President and Chief Executive Officer and the Chief Financial Officer at least once every quarter, in line with the Company's quarterly reporting dates. All Level 3 valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's consolidated financial statements.

## 3 Significant accounting policies (continued)

### n) Recent accounting pronouncements

*New standards and interpretations not yet adopted*

The following new standard and amendments to the standard is not yet effective and has not been applied in preparing these consolidated financial statements. Accordingly, the Company expects to adopt this standard as set forth below.

**IFRS 9, Financial Instruments**

IFRS 9, "Financial Instruments" ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. IFRS 9 required all recognized financial assets that are within the scope of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9; and (iii) remove the previous mandatory effective date for adoption of January 1, 2015, although the standard is available for early adoption.

The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

**IFRS 16, Leases**

IFRS 16, "Leases" ("IFRS 16"), a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17. The new standard results in substantially all lessee leases being recorded on the consolidated statements of financial position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on the Company's consolidated financial statement measurements and disclosures. The Company does not anticipate early adoption of this standard.

## 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 loss or comprehensive loss.

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net 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 Loss" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to net loss.

The Company has implemented the following classifications:

- Cash is 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. The fair value measurements are based on quoted prices in active markets for identical instruments (Level 1).

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

- Convertible debentures 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 consolidated statement of financial position. After initial recognition at fair value, the convertible debentures are remeasured each period at fair value with changes in fair value recognized in non-operating income in the consolidated statements of loss and comprehensive loss. The fair value measurements are based on significant unobservable inputs (Level 3). See note 10 for further details.

## 4 Financial instruments (continued)

### 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 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.

For the year ended October 31, 2016, the sensitivity of the Company's net loss due to charges in the exchange rate between the Canadian dollar and foreign currencies (primarily the United States dollar and the Kenyan shilling) would have impacted net loss by $27,865 for a 5% increase or decrease in the Canadian dollar.

### 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 is on deposit with major Canadian and Kenyan banks. 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 continue to maintain sufficient liquidity to be able to meet the funding of its liabilities as required (see note 2).

### e) Interest rate risk

The Company has cash; accordingly, the Company's interest income is susceptible to fluctuations in interest rates. The Company has an outstanding line of credit of $211,468 as at October 31, 2016. The payments required on the line of credit are subject to 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, 2016 totalled $27.4 million (2015 - $27.4 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, 2014** | 30,177 | 32,629 | 62,806 |
| Disposals | (18,332) | – | (18,332) |
| **Balance as at October 31, 2015** | 11,845 | 32,629 | 44,474 |
| Additions | – | – | – |
| **Balance as at October 31, 2016** | 11,845 | 32,629 | 44,474 |
| *Accumulated amortization* | | | |
| **Balance as at October 31, 2014** | 24,620 | 22,931 | 47,551 |
| Depreciation | 1,532 | 4,166 | 5,698 |
| Disposals | (16,949) | – | (16,949) |
| **Balance as at October 31, 2015** | 9,203 | 27,097 | 36,300 |
| Depreciation | 795 | 2,119 | 2,914 |
| **Balance as at October 31, 2016** | 9,998 | 29,216 | 39,214 |
| *Carrying amounts* | | | |
| **Balance as at October 31, 2015** | 2,642 | 5,532 | 8,174 |
| **Balance as at October 31, 2016** | 1,847 | 3,413 | 5,260 |

Amortization of exploration equipment is recorded as an addition to resource properties.

## 7 Resource properties

The Company's resource properties consist of the following:

| | Kenya | Canada | | |
|---|---|---|---|---|
| | Nyanza $ | KM61 $ | Seymour Lake $ | Total $ |
| **Balance as at October 31, 2014** | 3,432,693 | 4,028,434 | 1,130,354 | 8,591,481 |
| Net additions during the year | 984,545 | 4,800 | – | 989,345 |
| Write-down of resource properties | – | – | (355,354) | (355,354) |
| **Balance as at October 31, 2015** | 4,417,238 | 4,033,234 | 775,000 | 9,225,472 |
| Net additions during the year | 309,870 | 12,483 | – | 322,353 |
| Write-down of pilot project | (1,779,288) | – | – | (1,779,288) |
| Write-down of resource properties | – | (2,944,517) | – | (2,944,517) |
| Option payments received | – | (172,240) | (398,675) | (570,915) |
| **Balance as at October 31, 2016** | 2,947,820 | 928,960 | 376,325 | 4,253,105 |

## 7 Resource properties (continued)

### 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 payments of US $300,000 to EAPG and B&M which were due in August 2016. The Company is currently negotiating to extend the due date of the property payments. The required exploration expenditures have been incurred, cash payments of US $28,000 have been made to date, and $32,000 of expenditures have been settled on the payments owing.

- A second option to earn a further 10% interest for a cumulative 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 (“NSR”). 1% of the NSR is payable to African Queen Mines Limited (“AQ”) and 1% is payable to AQ’s partner, Abba Mining Company Limited.

An impairment assessment was performed on the Company’s Kenyan exploration properties. Outside of the Company’s pilot project at the Nyanza property, no indicators of impairment were noted on the remaining properties.

The Company suspended the operation of its pilot project at the Nyanza property in Kenya during the second quarter of the year. As a result, the Company has written-down the accumulated costs associated with the pilot project of $1,779,288. Non-refundable proceeds of $32,665 were received during the fourth quarter of the year on certain Nyanza property equipment, which was netted against the write-down.

## 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% NSR. Of the remaining claims on the KM61 property, certain portions are subject to a 3% NSR and the balances are not subject to any royalties. The Company can repurchase 50% of the 0.5% NSR for $250,000 and/or 50% of the 3% NSR for $1.0 million.

On June 22, 2016, the Company entered into a cash and share option agreement with Sovereign Gold Company Limited ("Sovereign") of Australia to acquire 100% of the Company's KM61 concession claims for gross proceeds of $1.4 million. The option excludes the mineralized area known as the KM61 Project. The Company received $100,000 upon signing of the agreement and a further $75,000 after 75 days, which were recorded as a recovery of resource property expenditures.

During the term of the agreement, the Company retained 100% of the Crescent Lake rights should Sovereign fail to complete any requirements of the option agreement. Stockport also maintains a 2% NSR on all minerals related to the property. Sovereign retained the right to abandon or accelerate payments at any time throughout the due diligence or option period and notified the Company during the fourth quarter of the year that it would not continue with the option agreement.

During the year ended October 31, 2016, the Company wrote-down the value of its KM61 property to $1,100,000, which was the net present value of the future cash flows, using a discount rate of 20%, associated with the Sovereign cash and share option agreement to acquire the property. As of June 22, 2016, if the discount rate was 5% higher or lower, the write-down of resource property expense would increase or decrease by $60,000.

As at October 31, 2016, 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.

#### 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% NSR, of which 1.5% can be purchased by the Company for $1.0 million.

On January 5, 2016 the Company entered into a cash and share option agreement with Ardiden Limited ("Ardiden") of Australia to acquire 100% of the Company's Seymour Lake concessions for gross proceeds of $1.0 million. The Company received $75,000 upon signing of the agreement and received a further 75,000 in cash and $250,000 of Ardiden shares at the end of the due diligence period completed within 150 days following the agreement execution date. As at October 31, 2016, the fair value of the Ardiden shares was $551,353, and the unrealized gain of $301,353 was recorded through the Company's other comprehensive income for the period.

## 7 Resource properties (continued)

### Canada

**ii) Seymour Lake** (continued)

Following the due diligence period, the Company will be paid a further $350,000 in quarterly installments of $25,000 per quarter, the first of which was received during the quarter ended October 31, 2016. After 24 months from the exercise date, a further $250,000 of Ardiden shares will be issued to the Company.

During the option period, Ardiden reserves both the right to accelerate all payments to the Company or withdraw from the agreement. Should Ardiden fail to complete any of the option agreement requirements, the Company will retain 100% of its Seymour Lake concession rights. The Company also maintains the option to purchase a 1.5% NSR for payment of $1.0 million on or before January 24, 2024.

During the year ended October 31, 2015, the Company wrote-down the value of its Seymour Lake property to $775,000, which was the net present value of the future cash flows, using a discount rate of 20%, associated with the Ardiden cash and share option agreement to acquire the property.

All amounts received from Ardiden during the year-ended October 31, 2016 were recorded as a recovery of resource property expenditures at their net present value, with the difference between the amount received and the net present value of $29,085 recorded as interest income.

As at October 31, 2016, the Company determined that there were no indicators of additional impairment or impairment reversals on the Seymour Lake property.

## 8 Accounts payable and accrued liabilities

| | 2016<br>$ | 2015<br>$ |
|---|---:|---:|
| Trade accounts payable and accrued liabilities | 791,712 | 736,717 |
| Amounts payable to related parties (note 17) | 764,107 | 491,899 |
| Withholdings and taxes payable | 25,998 | 8,521 |
| | 1,581,817 | 1,237,137 |

## 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 year ended October 31, 2016 and October 31, 2015 were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number | Amount $ | Number | Amount $ |
| **Opening balance** | 88,653,128 | 22,597,563 | 80,450,220 | 22,319,362 |
| Shares issued pursuant to private placements | – | – | 7,843,750 | 263,750 |
| Shares issued as finder's fees (note 10) | – | – | 359,158 | 35,916 |
| | 88,653,128 | 22,597,563 | 88,653,128 | 22,619,028 |
| Less: Share issue costs | – | – | – | (21,465) |
| **Closing balance** | 88,653,128 | 22,597,563 | 88,653,128 | 22,597,563 |

### c) Shares and units issued for cash

On October 27, 2015, the Company completed a private placement of 5,000,000 units at a price of $0.04 per unit, for gross proceeds of $200,000 (note 17). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.06 until October 27, 2017. The Company has allocated $150,000 to the value of the common shares and $50,000 to the value of the warrants. Fees related to the financing were $18,603 and consisted of professional and regulatory fees, as well as a finder's fee of 7% on a portion of the financing, payable in cash. The Company has allocated fees of $13,952 to the cost of issuing the common shares and $4,651 to the cost of issuing the warrants. All securities issued pursuant to the financing were subject to a four-month hold period from the date of closing.

On July 3, 2015, the Company completed a private placement of 2,843,750 units at a price of $0.04 per unit, for gross proceeds of $113,750 (note 17). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.06 until July 3, 2017. Using the residual method to value the units, the Company has allocated $113,750 to the value of the common shares and $nil to the value of the warrants. Fees related to the financing were $7,513 and consisted primarily of professional and regulatory fees. The Company has allocated the fees of $7,513 to the cost of issuing the common shares. All securities issued pursuant to the financing were subject to a four-month hold period from the date of closing.

## 9 Capital stock (continued)

### c) Shares and units issued for cash (continued)

On October 31, 2013, the Company completed a private placement of 1,196 units at a price of $1,001 per unit, for gross proceeds of $1,197,196 (note 10). Pursuant to this private placement, a finders' fee of 7%, or $83,804, was payable. 3% of the fee was payable in cash, and 4% was payable in shares at a value of $0.10 per share. During the year-ended October 31, 2014, the Company issued 119,720 common shares, valued at $11,972, and paid cash of $8,979 to the finders. The remaining balance of $26,937 in cash and 359,158 common shares, valued at $35,916, were paid to the finders during the year-ended October 31, 2015.

### 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.

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. 1,950,000 options were granted during the year-ended October 31, 2016 (2015 – nil options granted). Weighted average assumptions used in the pricing model for the year ended October 31, 2016 were as follows:

| | |
|---|---|
| Risk-free rate | 0.47% |
| Expected volatility of the Company's share price | 202% |
| Expected life of each option | 4.45 years |
| Expected dividend per share | $0.00 |
| Weighted average grant date fair value per option | |
| Exercise price exceeds the stock price on date of grant | $0.03 |

## 9 Capital stock (continued)

### d) Stock option plan (continued)

Option activity for the years ended October 31, 2016 and 2015 is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price $ | Number | Weighted average exercise price $ |
| Opening balance | 4,865,000 | 0.12 | 5,115,000 | 0.12 |
| Granted | 1,950,000 | 0.05 | – | – |
| Expired/forfeited | (540,000) | 0.29 | (250,000) | 0.11 |
| Ending balance | 6,275,000 | 0.09 | 4,865,000 | 0.12 |

As at October 31, 2016, 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 | 1.73 | 50,000 |
| 0.05 | 50,000 | August 20, 2018 | 1.80 | 50,000 |
| 0.05 | 1,200,000 | June 5, 2019 | 2.59 | 1,200,000 |
| 0.05 | 200,000 | February 16, 2021 | 4.30 | 50,000 |
| 0.05 | 1,750,000 | July 11, 2021 | 4.70 | – |
| 0.07 | 250,000 | July 4, 2019 | 2.67 | 250,000 |
| 0.07 | 200,000 | September 11, 2019 | 2.86 | 200,000 |
| 0.07 | 100,000 | April 12, 2018 | 1.45 | 100,000 |
| 0.10 | 700,000 | September 30, 2017 | 0.92 | 700,000 |
| 0.10 | 975,000 | January 17, 2018 | 1.21 | 975,000 |
| 0.10 | 100,000 | January 21, 2018 | 1.22 | 100,000 |
| 0.10 | 100,000 | March 13, 2018 | 1.36 | 100,000 |
| 0.25 | 600,000 | December 1, 2016 | 0.08 | 600,000 |
| 0.09 | 6,275,000 | | 2.53 | 4,375,000 |

As at October 31, 2016, 2,590,313 options were available for granting under the Plan (2015– 4,000,313 options).

The estimated value of options earned during the year ended October 31, 2016 was $30,378 (2015 - $48,028). The Company capitalized $nil (2015 - $85) in non-cash share-based compensation expense to resource properties during the year, with the balance of $30,378 (2015 - $47,943) 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 are being used to fund expenditures, including a two-phased exploration and potential surface gold recovery program at the Company's Nyanza Project in Kenya:

- Phase I – sampling, metallurgy, permitting and plant equipment procurement; and
- Phase II – capital investment and plant operation for the surface gold recovery program. Until the Company advanced to Phase II, 75% of the gross proceeds, being $897,897, were held in trust with a Kenyan law firm. At the Company's discretion, it was entitled to advance to Phase II with the completion of a successful Phase I.

During the year ended October 31, 2014, the Company elected to proceed with Phase II. As a result, the convertible debenture holders are now 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 preferred share in Stockport Mining Kenya Limited ("SMK"). $1 per unit has been 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 also 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. An initial value of $30,000 was assigned as the fair value of the warrants.

Details of amounts repayable related to the convertible debenture are as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Phase I | 299,299 | 299,299 |
| Phase II | 897,897 | 897,897 |
| Total financing proceeds after Phase I and Phase II | 1,197,196 | 1,197,196 |
| Premium entitlement (110%) | 1,316,916 | 1,316,916 |
| Total amount to be repaid by October 31, 2018 | 2,514,112 | 2,514,112 |
| Estimated fair value of amount to be repaid | 125,705 | 1,735,381 |
| Less: Current portion of convertible debentures | – | (560,000) |
| | 125,705 | 1,175,381 |

## 10 Convertible debentures (continued)

As a result of the Company suspending the operation of its pilot project and its write-down during the year ended October 31, 2016, the Company recorded a corresponding change in the estimated fair value of its convertible debentures in the amount of $1,609,676. As at October 31, 2016, the Company has estimated the fair value of its convertible debenture liability based upon its full settlement obligation to issue 5,028,223 common shares at the maturity date of October 31, 2018. The Company estimated the fair value of its obligation to issue these shares based on the market trading price of $0.025 per share. If the share price was $0.01 per share higher or lower, the fair value of convertible debenture liability would increase or decrease by $50,000.

As at October 31, 2015, the Company has estimated the fair value of this liability based on the net present value of 75% of projected future cash flows from operating the surface gold recovery program until October 31, 2018, using a discount rate of 20%, resulting in a fair value of $1,735,381.

## 11 Convertible notes

On February 25, 2015, the Company completed a $295,000 bridge loan financing from various directors and other private investors of the Company by the issuance of unsecured convertible promissory notes (the "Notes"). The Notes were issued at an interest rate of 12% per annum, payable quarterly, and will be repayable by the Company on or before the maturity date of March 27, 2018. Effective October 20, 2015, the interest rate on the Notes was amended to 15% per annum.

The principal amount of the Notes is convertible into common shares of the Company at the election of the holder at the rate of $0.05 of principal converted per share (the "Conversion Price"). If the Notes are not repaid within three days of the maturity date, they will be automatically converted into common shares of the Company at the Conversion Price. If interest is not paid each quarter, any accrued interest can be converted, at the option of the holder, into shares of the Company at a conversion price of $0.05 per share or a five day volume weighted-average price per common share immediately preceding the date of conversion, whichever is higher. The holders of the Notes have not yet elected to convert any unpaid accrued interest to common shares of the Company.

The Company has assessed the respective value of the Notes and the conversion component. The Notes have been initially recorded at a value of $205,000, and the equity component of the Notes has been valued at $90,000. The initial recorded value of the Notes, in the amount of $205,000, will be accreted to the face value of the Notes over the term of three years. During the years ended October 31, 2016 and 2015, the change in the recorded value of the Notes was as follows:

| | $ |
|---|---|
| Convertible promissory notes, original value | 205,000 |
| Accretion expense - 2015 | 20,000 |
| **Total value of the Notes – October 31, 2015** | 225,000 |
| Accretion expense - 2016 | 30,000 |
| **Total value of the Notes – October 31, 2016** | 255,000 |

## 11 Convertible notes (continued)

In preparing the allocation of value between the Notes and the equity component of the Notes, the Company estimated an interest rate of 25% for a similar debt instrument with no conversion option. If the Company had used an interest rate of 20%, the recorded value of the equity component of the Notes would have been $30,000 lower. If the Company had used an interest rate of 30%, the recorded value of the equity component of the Notes would have been $40,000 higher.

There were no changes to the terms and conditions of the Notes during the year-ended October 31, 2016.

## 12 Warrants

a) Warrant activity for the years ended October 31, 2016 and 2015 was as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Number | Weighted average exercise price per warrant $ | Amount $ | Number | Weighted average exercise price per warrant $ | Amount $ |
| **Opening balance** | 9,039,750 | 0.07 | 75,349 | 1,196,000 | 0.10 | 30,000 |
| Issued pursuant to July 3, 2015 private placement (note 9) | – | – | – | 2,843,750 | 0.06 | – |
| Issued pursuant to October 27, 2015 private placement (note 9) | – | – | – | 5,000,000 | 0.06 | 50,000 |
| Less: Warrant issue costs | – | – | – | – | – | (4,651) |
| **Closing balance** | 9,039,750 | 0.07 | 75,349 | 9,039,750 | 0.07 | 75,349 |

b) Warrants outstanding as of October 31, 2016:

| Expiry date | Number | Exercise price $ | Number of exercisable warrants |
|---|---|---|---|
| July 3, 2017 | 2,843,750 | 0.06 | 2,843,750 |
| October 27, 2017 | 5,000,000 | 0.06 | 5,000,000 |
| October 31, 2018 | 1,196,000 | 0.10 | 1,196,000 |
| | 9,039,750 | | 9,039,750 |

## 13 Contributed surplus

| | $ |
|---|---|
| **Balance at October 31, 2014** | 4,603,558 |
| Value of options earned | 48,028 |
| **Balance at October 31, 2015** | 4,651,586 |
| Value of options earned | 30,378 |
| **Balance at October 31, 2016** | 4,681,964 |

## 14 Income taxes

### a) Reconciliation of total tax recovery

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Loss before income taxes | (3,639,850) | (840,048) |
| Income tax rate | 28% | 28% |
| Expected income tax recovery | (1,019,000) | (235,000) |
| Non-deductible share-based compensation | 9,000 | 13,000 |
| Unrecognized temporary differences on write-down of resource properties and change in fair value of convertible debentures | 835,000 | 99,000 |
| Unutilized losses | 209,000 | 124,000 |
| Other | (34,000) | (1,000) |
| Income tax recovery | – | – |

### b) Deferred income taxes

The following reflects deferred income tax assets (liabilities):

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Deferred tax assets (liabilities)** | | |
| Non-capital losses carried forward | 223,000 | 512,000 |
| Deductible share issue costs | 13,000 | 25,000 |
| Accounting value of mineral resources properties in excess of tax value | – | (768,000) |
| Accounting value of convertible debentures in excess of (less than) tax value | (236,000) | 215,000 |
| Tax value of property and equipment and prepaid expenses in excess of accounting value | – | 16,000 |
| **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:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net deferred tax assets – not recognized | 4,150,000 | 3,404,000 |

## 14 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately $5,780,000 which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

| | $ |
|---|---|
| Year ending October 31, 2028 | 1,241,000 |
| 2029 | 672,000 |
| 2030 | 676,000 |
| 2031 | 825,000 |
| 2032 | 842,000 |
| 2033 | 351,000 |
| 2034 | 190,000 |
| 2035 | 528,000 |
| 2036 | 455,000 |
| | 5,780,000 |

The Company has undeducted share issuance costs of approximately $48,000, which will be deducted from Canadian taxable income over the next three years. The Company has also incurred resource expenditures of approximately $5,946,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

The Company has accumulated Mexican tax losses of approximately $5,911,000, 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 | 1,527,000 |
| 2018 | 3,432,000 |
| 2021 | 952,000 |
| | 5,911,000 |

In addition, the Company has accumulated Kenya tax losses of approximately $1,711,000, which may be carried forward and used to reduce taxable income from Kenya in future years. These losses expire as follows:

| | $ |
|---|---|
| Year ending October 31, 2017 | 56,000 |
| 2018 | 238,000 |
| 2019 | 1,127,000 |
| 2020 | 290,000 |
| | 1,711,000 |

## 15 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 an agreement with a Technical Consultant of the Company which provides that, should a change in control event occur, the Technical Consultant may elect to terminate his arrangement with the Company, in which event the Company is required to pay the Technical Consultant 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.

At October 31, 2016, the Company has a management services agreement with a company owned by certain key management of the Company for the provision of manangement services, rent and other office costs, at a fee of $56,040 per year, continuing until both parties mutually agree to terminate.

## 16 Segmented information

The Company conducts mineral operations in Canada and Kenya 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:

| | | | | 2016 |
|---|---|---|---|---|
| | | Mineral Operations | | |
| | Corporate Canada $ | Canada $ | Kenya $ | Total $ |
| Current assets | 591,680 | – | 1,020 | 592,700 |
| Property and equipment | 1,847 | – | 3,413 | 5,260 |
| Resource properties | – | 1,305,285 | 2,947,820 | 4,253,105 |
| | 593,527 | 1,305,285 | 2,952,253 | 4,851,065 |

| | | | | 2015 |
|---|---|---|---|---|
| | | Mineral Operations | | |
| | Corporate Canada $ | Canada $ | Kenya $ | Total $ |
| Current assets | 151,253 | – | 43,312 | 194,565 |
| Property and equipment | 2,642 | – | 5,532 | 8,174 |
| Resource properties | – | 4,808,234 | 4,417,238 | 9,225,472 |
| | 153,895 | 4,808,234 | 4,466,082 | 9,428,211 |

## 17 Related party transactions

The Company completed a private placement financing of 5,000,000 units for gross proceeds of $200,000 on October 27, 2015. A director of the Company purchased 200,000 of the units issued pursuant to this financing for gross proceeds of $8,000.

The Company completed a private placement financing of 2,843,750 units for gross proceeds of $113,750 on July 3, 2015. Directors and officers of the Company purchased 968,750 of the units issued pursuant to this financing for gross proceeds of $38,750.

During the year-ended October 31, 2015, the Company received proceeds from an operating line of credit of $250,000 by a company owned by certain key management of Stockport. Interest on the operating line of credit is payable monthly at prime plus 1%. As at October 31, 2016, the Company has outstanding line of credit amount of $211,468 (2015 - $250,000) and accrued interest payable of $1,307 on the line of credit balance outstanding (2015 - $3,823). During the year-ended October 31, 2016, the Company also incurred management service fees of $69,000 (2015 - $102,000) and rent of $18,000 (2015 - $24,000) to a company owned by certain key management. The management services are incurred on a cost recovery basis and include general and administration charges such as utilities, accounting services and investor relations services of the Company.

On February 25, 2015, the Company completed a $295,000 bridge loan financing by the issuance of unsecured convertible promissory notes. Certain directors and key management of the Company contributed $195,000 towards the financing. As at October 31, 2016, accrued interest on the Notes in the amount of $45,550 was payable to related parties (2015 - $15,964).

As at October 31, 2016, total amounts payable to officers, directors, key management, and companies owned thereby were $1,170,575 (2015 - $936,899), including outstanding line of credit amounts of $211,468 (2015 - $250,000) and $195,000 (2015 - $195,000) of the principal amounts received from related parties pursuant to the convertible note financing, which have a balance sheet carrying value of $168,560 (2015 – carrying value of $148,700).

## 18 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 Technical Consultant. Compensation earned by key management is summarized as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Salaries, consulting, and director fees earned | 243,833 | 244,500 |
| Share-based compensation | 24,018 | 39,543 |
| | 267,851 | 284,043 |