



# **IDM MINING**

**(Formerly Revolution Resources Corp.)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE YEAR ENDED OCTOBER 31, 2014**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
IDM Mining Ltd.  
(formerly Revolution Resources Corp.)

We have audited the accompanying consolidated financial statements of IDM Mining Ltd. (formerly Revolution Resources Corp.), which comprise the consolidated statements of financial position as at October 31, 2014 and 2013 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity (deficit) for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of IDM Mining Ltd. (formerly Revolution Resources Corp.) as at October 31, 2014 and 2013 and its financial performance and its 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 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of IDM Mining Ltd. (formerly Revolution Resources Corp.) to continue as a going concern.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

January 29, 2015

**IDM MINING LTD.** (Formerly Revolution Resources Corp.)  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
**AS AT**

	October 31, 2014	October 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,056,481	\$ 312,458
Short-term investments	8,625	138,000
Receivables	228,444	23,038
Prepaid expenses	<u>183,631</u>	<u>15,679</u>
	1,477,181	489,175
<b>Land use deposits</b> (Note 5)	50,000	-
<b>Equipment</b> (Note 6)	8,602	7,062
<b>Exploration and evaluation assets</b> (Note 7)	<u>5,996,930</u>	<u>15,139,805</u>
	<u>\$ 7,532,713</u>	<u>\$ 15,636,042</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)**

**Current**

Accounts payable and accrued liabilities \$ 4,029,197 \$ 1,459,028

**Derivative liability** (Note 8)

4,750,000 625,000

8,779,197 2,084,028

**Shareholders' equity/(deficit)**

Share capital (Note 9) 41,492,346 35,235,620

Reserves (Note 9) 5,174,558 4,439,346

Deficit (47,913,388) (26,122,952)

(1,246,484) 13,552,014

\$ 7,532,713 \$ 15,636,042

**Nature and continuance of operations** (Note 1)

**Subsequent event** (Note 16)

Approved and authorized by the Board on January 29, 2015:

"Robert McLeod"

Director

"Michael McPhie"

Director

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

**IDM MINING LTD.** (Formerly Revolution Resources Corp.)  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)  
**FOR THE YEAR ENDED OCTOBER 31,**

	2014	2013
<b>GENERAL EXPENSES</b>		
Consulting fees	\$ 121,448	\$ 20,988
Depreciation (Note 6)	2,762	3,025
Director fees (Note 10)	177,000	-
Foreign exchange loss (gain)	34,461	(13,325)
Investor relations	137,534	90,600
Management fees	235,250	181,000
Office and miscellaneous	193,763	288,292
Professional fees	311,450	225,357
Property investigation costs	17,408	4,722
Share-based payments (Note 9)	649,619	22,616
Transfer agent and filing fees	75,014	58,052
Travel and trade shows	<u>50,806</u>	<u>94,016</u>
<b>Loss before other items</b>	<u>(2,006,515)</u>	<u>(975,343)</u>
<b>OTHER ITEMS</b>		
Interest income	1,421	4,399
Recognition of flow-through premium liability (Note 9)	339,721	-
Recovery on mineral properties (Note 7)	-	250,000
Unrealized gain/(loss) on derivative liability (Note 8)	(4,125,000)	1,625,000
Write-off of exploration and evaluation assets (Note 7)	<u>(16,000,063)</u>	<u>(10,535,609)</u>
<b>Loss and comprehensive loss for the year</b>	<u>\$ (21,790,436)</u>	<u>\$ (9,631,553)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.79)</u>	<u>\$ (0.55)</u>
<b>Weighted average number of common shares outstanding</b>	<u>27,560,484</u>	<u>17,560,986</u>

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

**IDM MINING LTD. (Formerly Revolutin Resources Corp)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
**FOR THE YEAR ENDED OCTOBER 31**

	2014	2013
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (21,790,436)	\$ (9,631,553)
Items not affecting cash:		
Depreciation	2,762	3,025
Recognition of flow-through premium liability	(339,721)	-
Share-based payments	649,619	22,616
Unrealized (gain)/loss on derivative liability	4,125,000	(1,625,000)
Write-off of exploration and evaluation assets	16,000,063	10,535,609
Changes in non-cash working capital items:		
Receivables	(155,406)	90,568
Prepays	(167,952)	17,171
Accounts payable and accrued liabilities	<u>855,525</u>	<u>92,408</u>
Net cash used in operating activities	<u>(820,546)</u>	<u>(495,156)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>		
Short-term investments	129,375	-
Expenditures on exploration and evaluation assets	(2,791,883)	(1,171,731)
Land use deposits	(50,000)	-
Exploration advances	-	539,539
Acquisition on exploration and evaluation assets	(1,000,000)	-
Acquisition of Minera Golondrina (Note 4)	-	(47,979)
Purchase of equipment	<u>(4,302)</u>	<u>-</u>
Net cash used in investing activities	<u>(3,716,810)</u>	<u>(680,171)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Proceeds on issuance of share capital	5,755,922	557,580
Share issuance costs	<u>(474,543)</u>	<u>(322)</u>
Net cash provided by financing activities	<u>5,281,379</u>	<u>557,258</u>
<b>Change in cash and cash equivalents during the year</b>	744,023	(618,069)
<b>Cash and cash equivalents, beginning of year</b>	<u>312,458</u>	<u>930,527</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,056,481</u>	<u>\$ 312,458</u>
<b>Cash and cash equivalents</b>		
Cash	\$ 1,056,481	\$ 162,458
Guaranteed investment certificates	<u>-</u>	<u>150,000</u>
Total cash and cash equivalents	<u>\$ 1,056,481</u>	<u>\$ 312,458</u>

**Supplemental disclosure with respect to cash flows (Note 11)**

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

**IDM MINING LTD.** (Formerly Revolution Resources Corp)  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/DEFICIT**  
(Expressed in Canadian Dollars)

	<u>Share capital</u>				
	Number	Amount	Reserves	Deficit	Total
<b>Balance at October 31, 2012</b>	15,173,465	\$ 32,870,775	\$ 4,416,730	\$ (16,491,399)	\$ 20,796,106
Issued for:					
Private placement	1,327,572	557,580	-	-	557,580
Acquisition of Minera Golondrina (Note 4)	3,333,333	1,800,000	-	-	1,800,000
Share issue costs	-	7,265	-	-	7,265
Share-based payments	-	-	22,616	-	22,616
Loss for the year	-	-	-	(9,631,553)	(9,631,553)
<b>Balance at October 31, 2013</b>	19,834,370	35,235,620	4,439,346	(26,122,952)	13,552,014
Issued for:					
Private placements	12,705,508	3,367,562	-	-	3,367,562
Private placements - flow-through	6,092,823	2,414,360	-	-	2,414,360
Exploration and evaluation assets	4,955,500	1,214,098	-	-	1,214,098
Services	312,500	76,563	-	-	76,593
Debt	250,000	60,000	-	-	60,000
Stock options exercised	100,000	43,285	(19,285)	-	24,000
Share issue costs	-	(474,543)	-	-	(474,543)
Share-based payments	-	-	649,619	-	649,619
Agent warrants	-	(104,878)	104,878	-	-
Flow-through premium liability	-	(339,721)	-	-	(339,721)
Loss for the year	-	-	-	(21,790,436)	(21,790,436)
<b>Balance at October 31, 2014</b>	44,250,701	\$ 41,492,346	\$ 5,174,558	\$ (47,913,388)	\$ (1,246,484)

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

IDM Mining Ltd. (the “Company”) is an exploration company incorporated on July 14, 2009 under the laws of the Province of British Columbia, Canada. The Company is listed on the Toronto Stock Exchange (“TSX”). On June 6, 2014, the Company changed its name from “Revolution Resources Corp.” to “IDM Mining Ltd.” and now trades under the symbol IDM.

The Company’s head office, principal address and registered and records office is 1500 – 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2.

The Company is in the business of acquiring and exploring economically viable mineral resource deposits on its mineral properties. The recoverability of the amounts shown for mineral properties acquisition costs and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future.

## **2. BASIS OF PREPARATION**

### **Statement of Compliance**

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with the IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

### **Basis of Presentation**

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

On June 6, 2014, the Company consolidated its issued and outstanding shares on the basis of 6 pre-consolidated shares for one post-consolidated share. Unless otherwise stated, all share, warrant, option and per share amounts in these consolidated financial statements have been adjusted to reflect the share consolidation.

## **2. BASIS OF PREPARATION (cont’d...)**



### **Use of Estimates**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

These consolidated financial statements include estimates and judgments which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant estimates and assumptions relate to the valuation of deferred income tax amounts, impairment testing, the valuation of certain financial liabilities, the valuation of the acquisition of Minera Golondrina S. de R.L. de C.V. (“Minera Golondrina”), the valuation of the derivative liability, and the calculation of share-based payments. Share-based payments, as measured with respect to stock options granted, are estimated by reference to the Black-Scholes Pricing Model; a detailed disclosure of management’s estimates with respect to the pricing model is found in Note 9. The Company has reviewed its exploration and evaluation assets for indications of impairment and determined that there is no such indication in excess of what has been recorded. The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes. The valuation of the net assets acquired upon the acquisition of Minera Golondrina is detailed in Note 4. The valuation of the derivative liability is discussed in Note 8.

The most significant judgments relate to the recoverability of capitalized amounts, the functional currency of the Company and its subsidiaries, recognition of deferred tax assets and liabilities and the determination of the economic viability of a project.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (Note 10). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

### **Foreign exchange**

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments**

Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. The Company’s cash and cash equivalents and short-term investments are classified as FVTPL. Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company’s receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At October 31, 2014, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company has classified its derivative liability as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instrument disclosures

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Cash and cash equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**Short-term investments**

Short-term investments consist of highly liquid investments held as collateral on other short-term obligations included in accounts payable and accrued liabilities.

**Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at the rate of 30% annually for computer equipment.

**Exploration and evaluation assets**

Costs directly related to the exploration and evaluation of mineral properties is capitalized once the legal rights to explore the mineral properties are acquired or obtained. When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment (cont'd...)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions**

*a) Environmental rehabilitation provisions*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of comprehensive loss. The Company had no rehabilitation obligations as at October 31, 2014 and October 31, 2013.

*b) Other provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

**Valuation of equity units issued in private placements**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Flow-through shares**

The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures funded from the proceeds of the sale of such shares being transferred to the purchasers of the shares. Under IFRS, on the issuance of such shares, the Company bifurcates the flow-through shares into: a flow-through shares premium, equal to the estimated premium that investors pay for the flow-through feature, which is recognized as liability, and share capital. As the related exploration expenditures are incurred, the Company derecognizes the liability and the premium is recognized through the Statement of Loss.

**Share-based payments**

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

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

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

If and when the stock options are exercised, the applicable amounts of reserves are transferred to share capital.

**Loss per share**

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**Income taxes**

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**New standards, interpretations and amendments adopted**

As of November 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards. The Company has adopted these new and amended standards without any significant effect on its financial statements.

The nature and the impact of each new standard are described below:

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Company.

*IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Company does not have any partnerships in JCEs, the adoption of this standard had no impact on the financial statements of the Company.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

*IFRS 13 Fair Value Measurement*

IFRS 13 is a comprehensive standard for all fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes additional disclosures regarding fair value measurements.

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

#### New standards not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended October 31, 2014:

- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets<sup>(i)</sup>
- IAS 32 (Amendment) New standard that clarifies requirements for offsetting financial assets and financial liabilities.<sup>(ii)</sup>
- IAS 36 (Amendment) This amendment addresses the disclosure of information regarding the recoverable amount of impairment assets as the amount is based on fair value less costs of disposal.<sup>(ii)</sup>
- IFRIC 21 This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event, known as an obligating event. The interpretation clarifies that the obligation event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.<sup>(ii)</sup>

(i) Deferred indefinitely.

(ii) Effective for annual periods beginning on or after January 1, 2014

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

### 4. ACQUISITION OF MINERA GOLONDRINA

During the year ended October 31, 2013, the Company executed a purchase and sale agreement with Lake Shore Gold Corp (“Lake Shore”) a Canadian public company, which supersedes the existing option agreement (Note 7). Under the terms of the new agreement the Company acquired Lake Shore’s subsidiary, Minera Golondrina, the sole material asset of which is 100% of the rights, title and interest in the Mexico Properties, subject to certain net smelter royalties (“NSR”). As consideration the Company:

- a) Issued 3,333,000 common shares, subject to certain sale restrictions;
- b) Granted Lake Shore the following royalty interests, subject in each case to certain rights to repurchase a portion of the NSR:
  - i. A 2% NSR on the Universo Property;
  - ii. A 3.5% NSR on the properties comprising the Montana de Oro Project (forming part of the Montana de Oro Property);
  - iii. A 2.5% NSR on the properties comprising the La Bufa Project (forming part of the Montana de Oro Property);
  - iv. A 2% NSR on the properties comprising the Lluvia de Oro Project (forming part of the Montana de Oro Property), and:
- c) Will pay \$5,000,000 in cash or common shares valued at the greater of \$0.20 and a five-day volume-weighted average trading price on or before December 31, 2017 (Note 8).

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**4. ACQUISITION OF MINERA GOLONDRINA (cont'd...)**

The acquisition was treated as an asset acquisition. The net assets of Minera Golondrina were valued with reference to the fair market value of the Company's common shares as at the time of issuance, being \$1,800,000, and the fair value of the derivative liability, which at the date of the transaction was \$2,250,000 (Note 8). It was determined that, given the inherent difficulty in providing an accurate valuation over unproven exploration and evaluation assets, the valuation of the net assets of Minera Golondrina was more reliably determined by reference to the market value of the shares issued and the future obligation. The Company incurred transaction costs associated with the acquisition of \$73,062 which have been recorded as acquisition costs.

The net assets of Minera Golondrina acquired are as follows:

	Net assets
Cash	\$ 25,083
Receivables	21,765
Exploration and evaluation assets	4,186,821
Accounts payable and accrued liabilities	<u>(110,607)</u>
<b>Total consideration</b>	<b>\$ 4,123,062</b>

**5. LAND USE DEPOSITS**

The Company has provided deposits as security for land use and potential future reclamation work related to its mineral properties. As at October 31, 2014 a total of \$50,000 (October 31, 2013 – Nil) has been lodged with the British Columbia Ministry of Energy and Mines.

**6. EQUIPMENT**

	Computer equipment
<b>Cost</b>	
Balance, October 31, 2013 and 2012	\$ 18,051
Acquisitions during for the year ended October 31, 2014	<u>4,302</u>
<b>Balance, October 31, 2014</b>	<b>\$ 22,353</b>
<b>Accumulated depreciation</b>	
Balance, October 31, 2012	\$ 7,964
Depreciation for the year	<u>3,025</u>
Balance, October 31, 2013	10,989
Depreciation for the year	<u>2,762</u>
<b>Balance, October 31, 2014</b>	<b>\$ 13,751</b>
<b>Carrying amounts</b>	
As at October 31, 2013	\$ 7,062
As at October 31, 2014	<u>\$ 8,602</u>



## **7. EXPLORATION AND EVALUATION ASSETS**

### **Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral titles as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all its properties and, to the best of its knowledge, title to all of its properties is in good standing.

### ***Red Mountain (B.C., Canada)***

In April 2014, the Company entered into an option agreement with Seabridge Gold Inc. (“Seabridge”) to acquire a 100% interest in the Red Mountain gold project located near Stewart, B.C.

Under the terms of the option agreement, the Company issued 4,955,500 common shares, is required to pay \$2,000,000 in cash in two payments (\$1,000,000 paid, \$1,000,000 within 1.5 years) and incur \$7,500,000 million in exploration and development expenditures over three years (\$2,500,000 per year) (As at October 31, 2014, the Company has incurred \$3,609,725). The Company has the right to extend the deadline for expenditure of the final \$2,500,000 by one year upon payment to Seabridge of \$250,000.

Upon the commencement of commercial production, the Company is required to make an additional one-time \$1,500,000 cash payment to Seabridge, and Seabridge will also retain a gold metal stream on the Red Mountain project to acquire 10% of the annual gold production from the property at a cost of US\$1,000 per ounce up to a maximum of 500,000 ounces produced (50,000 ounces to Seabridge). Alternatively, Seabridge may elect to receive a one-time cash payment of \$4,000,000 at the commencement of production in exchange for the buyback of the gold metal stream.

### ***Mexico Property Portfolio***

In December 2011 the Company entered into an option agreement, subsequently amended in July 2012, with Lake Shore to acquire up to a 100% interest in the Montana de Oro (comprised of Montana de Oro, Lluvia de Oro and La Bufa Projects) and Universo Properties in Mexico. Pursuant to this amended option agreement the Company issued 1,118,957 common shares valued at \$2,251,946 and reimbursed Lake Shore \$3,735,449 for expenditures incurred prior to the signing of the option agreement.

During the year ended October 31, 2013, the Company executed a purchase and sale agreement with Lake Shore, which supersedes the amended option agreement. Under the terms of the new agreement the Company acquired 100% of the issued and outstanding shares of Lake Shore’s subsidiary, Minera Golondrina, which holds 100% of the rights, title and interest in the Mexico Properties, subject to certain net smelter royalties (“NSR”) (Note 4).

The Montana de Oro properties were subject to certain underlying agreements. Underlying payments on the Montana de Oro Property total MXP 1,083,990 in the first year (paid), and MXP 700,000 in the second year. This agreement was terminated in November 2014.

In May 2012, the Company, through its wholly owned subsidiary Minera Revolution, S.A. de C.V, entered into an option agreement to acquire three additional claims to the La Bufa claims in the Montana de Oro Property. The agreement required cash payments totalling US\$350,000 (US\$50,000 paid) and issuing 800,000 common shares (300,000 shares issued with a value of \$48,000) of the Company over a two year period. The vendor retained a 1.5% NSR with respect to these claims. During the year ended October 31, 2013, the Company abandoned these properties.

**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

During the year ended October 31, 2013 the Company elected to abandon the Universo Property and a portion of the Montana de Oro Property and consequently wrote off associated capitalized costs of \$8,104,727 as at October 31, 2013.

During the year ended October 31, 2014, the Company elected to abandon the remaining Mexico Properties and consequently wrote off associated capitalized costs of \$9,365,618 as at October 31, 2014.

Concession fees are due semi-annually in January and July of each year. The Company has accrued for the concession fees payable plus penalties and interest on the Mexico Properties from July 2013 to the date these properties were returned to the government authorities (Note 16).

***Champion Hills Properties (USA)***

During fiscal 2011, the Company acquired, from a non-arm's length private company, a 90% interest in two option and lease agreements by issuing 333,333 common shares valued at \$930,000 and paying \$375,312 (US\$375,000). The Company has the right of first refusal on the remaining 10% after incurring US\$1,000,000 in exploration expenditures.

The Company has entered into various additional option and purchase agreements, certain of which have been terminated, to complement the initial land package directly with property owners which entitle the Company to acquire 100% of these properties. As at October 31, 2014, the various option and purchase agreements cover approximately 704 acres (October 31, 2013 – 704 acres), require annual lease payments ranging from US\$50 to US\$200 per acre over a five year term and US\$1 per foot drilled. The Company has the option to purchase each land package for the greater of 150% of the appraised value or a certain fixed price. Upon commencement of commercial production the properties are subject to a 2% NSR.

Certain annual lease payments are past due. Due to working capital deficiencies, certain lease payments remain outstanding. The option and purchase agreements are therefore at risk of termination by the property owners. During the year ended October 31, 2014, the Company has written down the carrying value of the Champion Hills properties by \$6,634,445 to a nominal value.

During the year ended October 31, 2013 the Company elected to abandon certain non-core option agreements and consequently wrote-off the associated capitalized costs of \$761,443.

***Silver Hill and Silver Valley***

During the year ended October 31, 2013 the Company elected to abandon the options on the Silver Hill and Silver Valley properties in North Carolina held with Carolina Mineral Resources Inc. and wrote-off the capitalized costs of \$1,669,439 as at October 31, 2013.

***Hoover Hill***

In March 2011 the Company entered into an option and purchase agreement on the Hoover Hill mine property, North Carolina. The Company has a four year option to purchase each land package for the greater of 150% of the appraised value or a certain fixed price. The Company paid \$295,680 (US\$300,000) on signing and issued 16,667 share purchase warrants with a fair value of \$38,775. The option can be extended for an additional year for US\$100,000. Each warrant entitles the holder to one common share at an exercise price of \$4.50 for a period of four years. The Company paid other acquisition costs of \$104,548. The property is subject to a 2% NSR, of which one-half (1%) may be purchased for US\$1,000,000.

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**7. EXPLORATION AND EVALUATION ASSETS (cont'd....)**

*Nuukfjord (Greenland)*

During the year ended October 31, 2013 the Company sold its 15% interest in certain mineral licences in Greenland, which had been previously written-off, known as the Storo Gold Project, for \$250,000.

	October 31, 2014			
	<u>Red Mountain</u>	<u>Mexico</u>	<u>Champion Hills</u>	<u>Total</u>
<b>Exploration costs</b>				
Balance, beginning of year	\$ -	\$ 743,643	\$ 4,773,560	\$ 5,517,203
Assay	68,232	-	-	68,232
Camp and road access	120,158	-	33,666	153,824
Field work and personnel	251,779	106,811	-	358,590
Geological consulting	442,015	61,217	21,292	524,524
Drilling	395,857	-	-	395,857
Equipment rental and maintenance	144,985	-	-	144,985
Helicopter	764,448	-	-	764,448
Lease payments and permitting	978,404	558,868	15,287	1,552,559
Project administration and report preparation	314,617	14,752	-	329,369
Travel and transportation	129,229	13,768	-	142,997
	<u>3,609,724</u>	<u>755,416</u>	<u>70,245</u>	<u>4,435,385</u>
Write-off during the year	-	1,499,059	4,843,805	6,342,864
Balance, end of year	<u>3,609,724</u>	-	-	<u>3,609,724</u>
<b>Acquisition costs</b>				
Balance, beginning of year	-	7,866,559	1,756,043	9,622,602
Acquisition costs	2,387,205	-	34,598	2,421,803
	<u>2,387,205</u>	<u>7,866,559</u>	<u>1,790,641</u>	<u>12,044,405</u>
Write-off during the year	-	7,866,559	1,790,640	9,657,199
Balance, end of year	<u>2,387,205</u>	-	1	<u>2,387,206</u>
<b>Balance, October 31, 2014</b>	<b>\$ 5,996,929</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 5,996,930</b>

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**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

	October 31, 2013		
	<u>Mexico</u>	<u>Champion Hills</u>	<u>Total</u>
<b>Exploration costs</b>			
Balance, beginning of year	\$ 4,667,012	\$ 6,390,125	\$ 11,057,137
Assays	-	701	701
Camp and road access	-	33,233	33,233
Equipment rental and maintenance	2,744	18,435	21,179
Field work and personnel	207,803	4,110	211,913
Geological consulting	328,244	35,850	364,094
Lease payments and permitting	1,054,326	97,865	1,152,191
Project management fees	-	750	750
Project administration and report preparation	27,003	-	27,003
Travel and transportation	37,472	847	38,319
	<u>1,657,592</u>	<u>191,791</u>	<u>1,849,383</u>
Write-off of mineral property	<u>(5,580,961)</u>	<u>(1,808,356)</u>	<u>(7,389,317)</u>
Balance, end of year	<u>743,643</u>	<u>4,773,560</u>	<u>5,517,203</u>
<b>Acquisition costs</b>			
Balance, beginning of year	<u>6,132,581</u>	<u>2,378,569</u>	<u>8,511,150</u>
Acquisition costs	70,923	-	70,923
Acquisition – Mineral Golondrina (Note 4)	<u>4,186,821</u>	<u>-</u>	<u>4,186,821</u>
	4,257,744	-	4,257,744
Write-off of mineral property	<u>(2,523,766)</u>	<u>(622,526)</u>	<u>(3,146,292)</u>
Balance, end of year	<u>7,866,559</u>	<u>1,756,043</u>	<u>9,622,602</u>
<b>Balance, October 31, 2013</b>	<b>\$ 8,610,202</b>	<b>\$ 6,529,603</b>	<b>\$ 15,139,805</b>

**8. DERIVATIVE LIABILITY**

Pursuant to the acquisition of 100% of the issued and outstanding shares of Minera Golondrina (Note 4), the Company is obligated to pay \$5,000,000 in cash or common shares, at the option of the Company, on or before December 31, 2017. If the Company elects to issue common shares they will be valued at the greater of \$0.20 and a five-day volume-weighted average trading price, resulting in a maximum of 25,000,000 shares being issued.

This floor creates a derivative liability as the Company is under no obligation to deliver cash and may issue shares with a fair value less than the \$5,000,000. The value of the derivative liability has been determined to be the value of the common shares required to settle the derivative liability.

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**8. DERIVATIVE LIABILITY (cont'd...)**

The table below illustrates the movement of the derivative liability which is based on the share price on the applicable date.

	October 31, 2014	October 31, 2013
Opening balance	\$ 625,000	\$ -
Fair value of derivative liability	-	2,250,000
Unrealised loss (gain) on derivative liability	<u>4,125,000</u>	<u>(1,625,000)</u>
Closing Balance	<u>\$ 4,750,000</u>	<u>\$ 625,000</u>

**9. SHARE CAPITAL AND RESERVES**

**Authorized share capital**

As at October 31, 2014, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

**Private placements**

During the year ended October 31, 2014, the Company completed the following:

- a) a non-brokered private for gross proceeds of \$2,484,980, consisting of 3,754,178 flow-through units at \$0.45 per flow-through unit and 1,989,000 common units at \$0.40 per common unit. Each flow-through unit consisted of one common share and one half-warrant, with each whole warrant exercisable for a period of 24 months at \$0.55 per share. Each common unit consisted of one common share and one half-warrant exercisable for a period of 24 months at \$0.50 per share. Finder's fees payable in connection with the financing consisted of a total of \$82,809 and 184,828 finder's warrants. The finder's warrants have been recorded at a fair value of \$46241, which is included in reserves. The fair value of the warrants was determined using the Black-Scholes option pricing model using the following assumptions: risk free rate interest rate of 1.16%, expected life of 1.00 years, expected volatility rate of 197.57% and a dividend rate of 0.00%.
- b) a brokered private placement for gross proceeds of \$2,776,140, consisting of 2,098,000 flow-through units at \$0.31 per flow-through unit and 8,857,334 common units at \$0.24 per common unit. Each unit consists of one common share and one half-warrant, with each whole warrant exercisable for a period of 15 months at \$0.36 per share. The Company incurred finders' fees of \$143,303 and issued 377,243 agent warrants exercisable for a period of 15 months at \$0.36 per share. The agents' warrants have been recorded at a fair value of \$58,637, which is included in reserves. The fair value of the warrants was determined using the Black-Scholes option pricing model using the following assumptions: risk free rate interest rate of 1.09%, expected life of 1.25 years, expected volatility rate of 188.35% and a dividend rate of 0.00%.
- c) a non-brokered private placement with characteristics consistent with the brokered private placement. The Company issued 240,645 flow-through units and 1,859,174 common units for additional gross proceeds of \$520,802.
- d) As the Company has incurred the exploration expenditures related to the financings completed in fiscal year end October 31, 2014, the flow-through premium has been fully recognized.

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

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

During the year ended October 31, 2013, the Company completed a private placement and issued 1,327,572 units at a price of \$0.42 per unit for gross proceeds of \$557,580. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$0.75 for a period of 2 years.

**Other share issuance**

During the year ended October 31, 2014 the Company:

- a) Issued 312,500 units in exchange for advisory services on the Red Mountain property valued at \$75,000. Each unit comprises one common share and one half-warrant. Each whole warrant is exercisable for a period of 15 months at \$0.36 per share.
- b) Issued 250,000 commons shares for debt relating to legal services, valued at \$60,000.

**Stock options and warrants**

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, October 31, 2012	2,378,107	\$ 3.90	942,500	\$ 3.42
Granted	663,786	0.78	-	-
Expired	(1,611,438)	3.60	(280,000)	3.90
Outstanding, October 31, 2013	1,430,455	2.76	662,500	3.16
Granted	10,242,489	0.41	3,350,000	0.24
Exercised	-	-	(100,000)	0.24
Forfeited	-	-	(283,330)	3.26
Outstanding, October 31, 2014	11,672,944	\$ 0.70	3,629,170	\$ 0.54
Number currently exercisable	11,672,944	\$ 0.70	3,629,170	\$ 0.54

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

**Stock options and warrants outstanding (cont'd...)**

The following incentive stock options and warrants were outstanding at October 31, 2014:

Number	Exercise price	Expiry date
<b>Stock options</b>		
229,167	\$ 3.00	April 27, 2015
62,502	4.20	February 15, 2016
87,501	2.58	February 1, 2017
3,100,000	0.24	July 3, 2019
150,000	0.30	October 10, 2019
<b>Warrants</b>		
663,789	\$ 0.75	April 2, 2015
750,000	4.50	October 18, 2015
7,186,071	0.36	September 13, 2015*
142,828	0.55	September 19, 2015
42,000	0.55	October 10, 2015
1,565,978	0.55	September 19, 2016
738,250	0.50	September 19, 2016
311,111	0.55	October 10, 2016
256,250	0.50	October 10, 2016
<b>Special Warrants</b>		
16,667	\$ 4.50	March 15, 2015

\*These warrants are subject to an accelerated expiry in the event that the Company's common shares trade at a closing price greater than \$0.55 per share for a period of 20 consecutive trading days. The Company may accelerate the expiry date of the warrants by giving notice via press release; in such case, the warrants will expire 30 days from the date of notice.

**Share-based payments**

The Company has a stock option plan under which it is authorized to grant options to directors, officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors.

During the year ended October 31, 2014, the Company granted 3,350,000 stock options with a weighted fair value of \$0.19 per option for options graded and vested to directors, officers and consultants. The Company did not grant any options during the year ended October 31, 2013. Total share-based payments for options vested recognized in the statement of loss and comprehensive loss for the year ended October 31, 2014 was \$649,619 (2013 - \$22,616) pursuant to vesting incentive options. This amount was also recorded as reserves on the statement of financial position.



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

**Share-based payments (cont'd....)**

The following weighted average assumptions were used for the valuation of stock options:

	2014	2013
Risk-free interest rate	1.62%	-
Expected life of options	5 years	-
Annualized volatility	124%	-
Dividend rate	0.00%	-
Forfeiture rate	0.00%	-

**10. RELATED PARTY TRANSACTIONS**

The consolidated financial statements include the financial statements of the Company and its 100% owned subsidiaries Storgold Resources Ltd (Canada – Inactive), Revolution Resources (NC) Inc. (USA), Minera Revolution, S.A. de C.V. (Mexico) and Minera Golondrina, (Mexico).

During the year ended October 31, 2014, the Company paid or accrued the following amounts as compensation to key management personnel:

- a) Management fees of \$224,000 (2013 - \$181,000) to officers of the Company.
- b) Professional fees of \$115,000 (2013 - \$60,000) to officers and former officers of the Company.
- c) Director fees of \$177,000 (2013 - \$Nil) to non-executive directors of the Company and a company controlled by a director of the Company.
- d) Consulting fees of \$Nil (2013 - \$15,000) to directors of the Company.
- e) Shareholder communications fees of \$Nil (2013 - \$26,182) to a company controlled by a former director of the Company.

Share-based payment expense for the year ended October 31, 2014 included compensation to directors and officers of \$567,656 (2013 - \$18,393) for stock options vesting during the year.

Included in accounts payable is \$105,126 (October 31, 2013 - \$48,300) due to directors and officers of the Company.

**10. RELATED PARTY TRANSACTIONS (cont'd...)**

The Company operates from the premises of a group of public and private companies with common directors. Certain companies provide geological consulting and office and administrative services to the Company and various other public companies. Included in accounts payable and accrued liabilities is \$174,326 (October 31, 2013 - \$93,359) due to a related private company. During the year ended October 31, 2014, the Company paid or accrued \$104,980 (2013 - \$156,181) for geological consulting, and \$102,449 (2013 - \$106,647) for office and administrative expenditures.

A private company controlled by a director of the Company provides management and professional services to public companies. During the year ended October 31, 2014, the Company paid or accrued \$Nil (2013 - \$39,065) for investor relations services, \$25,000 (2013 - \$51,411) for accounting services and \$Nil (2013 - \$34,741) for administration expenses.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the year ended October 31, 2014, include the Company:

- a) Incurring exploration and evaluation asset expenditures of \$1,774,644 through accounts payable and accrued liabilities, net of fiscal 2013 amounts.
- b) Issuing 4,955,500 common shares with a fair value of \$1,214,098 as acquisition costs on the Red Mountain property.
- c) Issuing 562,071 agent warrants with a fair value of \$104,876 as finder's fees in relation to the private placements.
- d) Issuing 312,500 units with a fair value of \$100,849 in exchange for advisory services on the Red Mountain option agreement.
- e) Issuing 250,000 common shares with a fair value of \$60,000 in settlement of debt.
- f) Accruing \$50,000 in proceeds on private placements through receivables.

Significant non-cash transactions for the year ended October 31, 2013, include the Company:

- a) Incurring exploration and evaluation asset expenditures of \$1,045,047 through accounts payable and accrued liabilities. During fiscal 2014 \$974,226 of these expenditures were reclassified to operations upon the write-down of the Mexican exploration and evaluation assets.
- b) Incurring exploration and evaluation asset expenditures of \$165,755 through exploration advances.

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**12. INCOME TAXES**

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

	2014	2013
(Loss) for the year before income tax	\$ (21,790,436)	\$ (9,631,554)
Expected income tax (recovery)	\$ (5,666,000)	\$ (2,432,000)
Expenses not deductible for income tax purposes	5,211,000	1,454,000
Impact of flow-through shares	583,000	-
Other	(123,000)	2,000
Changes in tax rates	(169,000)	(1,418,000)
Change in unrecognized deductible temporary differences	<u>164,000</u>	<u>2,394,000</u>
Total income tax (recovery)	\$ -	\$ -

Significant components of deductible and taxable differences, unused tax losses and unused credits that have not been included in the statement of financial position are as follows:

	2014	2013	Expiry Dates
Share issuance costs	\$ 767,000	\$ 848,000	2033 – 2036
Exploration and evaluation assets	24,352,000	10,747,000	Not applicable
Non-capital losses	10,424,000	8,431,000	2015 – 2034
Equipment	14,000	11,000	Not applicable

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Financial Instruments**

Cash and cash equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of short-term investments, receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The derivative liability is measured at fair value using a level 2. The Company calculates the fair value of the derivative liability based on the company's share price.

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.

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

#### **Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2014, the Company had a cash and cash equivalents and short-term investments balance of \$1,065,106 to settle current liabilities of \$4,029,197. The derivative liability recognized in order to complete the acquisition of Minera Golondrina (Note 4) may be settled at the Company's option in shares; therefore, the debt is not considered to materially increase the liquidity risk of the Company.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the exercise of outstanding warrants and the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

##### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and short-term investments. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of GST receivable from the Government of Canada and IVA receivable from the Government of Mexico. The Company has been successful in recovering input tax credits and believes credit risk with respect to receivables to be insignificant.

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

#### a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and equivalents and short-term investments balances. The Company's current policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at October 31, 2014, the Company did not have any investments in investment-grade short-term deposit certificates.

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

**Financial risk factors (cont'd...)**

b) Foreign currency risk

The majority of the Company's business is conducted in Canada in the Canadian dollar, in Mexico in the US dollar and Mexican pesos and in the USA in the US dollar. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, the Mexican peso and the US dollar. Fluctuations in the exchange rate among the Canadian dollar, the Mexican peso and the US dollar may have a material effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

c) Price risk

The mining industry is heavily dependent upon the market price of the metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist for their sale. There can be no assurance that mineral prices will be such that the Company's properties can be mined at a profit. Factors beyond control of the Company may affect the marketability of any minerals discovered. The price of gold has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the Company's control. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**14. CAPITAL MANAGEMENT**

The Company considers capital to be the elements of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its mineral property interests. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

**15. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the acquisition and exploration of mineral property concessions. Geographic information is as follows:

	October 31, 2014	October 31, 2013
Capital assets:		
Canada	\$ 6,055,531	\$ 7,062
USA	1	6,529,603
Mexico	-	8,610,202
	<u>\$ 6,055,532</u>	<u>\$ 15,146,867</u>

**16. SUBSEQUENT EVENT**

Subsequent to year end the Company has commenced the process to place its two wholly owned Mexican subsidiaries into liquidation.