

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED April 30, 2017.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: 001-33125

SILVER BULL RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada
State or other jurisdiction of
incorporation or organization

91-1766677
(I.R.S. Employer
Identification No.)

777 Dunsmuir Street, Suite 1610
Vancouver, B.C. V7Y 1K4
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: 604-687-5800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 13, 2017, there were 177,894,967 shares of the registrant's \$0.01 par value common stock outstanding, the registrant's only outstanding class of voting securities.

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

| | <u>April 30,</u> <u>2017</u> | <u>October 31,</u> <u>2016</u> |
|---|---------------------------------|-----------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 15) | \$ 346,083 | \$ 1,467,328 |
| Value-added tax receivable, net of allowance for uncollectible taxes of \$90,854 and \$88,283 respectively (Note 5) | 162,381 | 117,276 |
| Other receivables | 12,987 | 4,652 |
| Prepaid expenses and deposits | 63,248 | 116,271 |
| Assets held for sale (Note 6) | 11,656 | 21,283 |
| Total Current Assets | <u>596,355</u> | <u>1,726,810</u> |
| Office and mining equipment, net (Note 7) | 215,264 | 226,301 |
| Property concessions (Note 8) | 5,004,386 | 5,004,386 |
| Goodwill (Note 9) | 2,058,031 | 2,058,031 |
| TOTAL ASSETS | <u>\$ 7,874,036</u> | <u>\$ 9,015,528</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 255,554 | \$ 133,274 |
| Accrued liabilities and expenses (Note 10) | 159,959 | 334,297 |
| Income tax payable | 2,271 | 10,623 |
| Total Current Liabilities | <u>417,784</u> | <u>478,194</u> |
| COMMITMENTS AND CONTINGENCIES (Notes 1, 11 and 16) | | |
| STOCKHOLDERS' EQUITY (Notes 11, 12, 13 and 14) | | |
| Common stock, \$0.01 par value; 300,000,000 shares authorized, 177,894,967 and 177,894,967 shares issued and outstanding, respectively | 1,778,949 | 1,778,949 |
| Additional paid-in capital | 126,919,655 | 126,820,897 |
| Accumulated deficit | (121,464,381) | (120,281,820) |
| Other comprehensive income | 222,029 | 219,308 |
| Total Stockholders' Equity | <u>7,456,252</u> | <u>8,537,334</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 7,874,036</u> | <u>\$ 9,015,528</u> |

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

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| REVENUES | \$ — | \$ — | \$ — | \$ — |
| EXPLORATION AND PROPERTY HOLDING COSTS | | | | |
| Exploration and property holding costs | 196,578 | 97,990 | 556,775 | 204,583 |
| Depreciation, asset and property concessions' impairment (Notes 6 and 8) | 12,981 | 7,627 | 20,663 | 58,130 |
| TOTAL EXPLORATION AND PROPERTY HOLDING COSTS | 209,559 | 105,617 | 577,438 | 262,713 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| Personnel | 155,546 | 110,837 | 271,734 | 215,922 |
| Office and administrative | 107,248 | 103,821 | 169,177 | 183,742 |
| Professional services | 79,454 | 75,447 | 121,205 | 167,111 |
| Directors' fees | 59,181 | 40,621 | 93,977 | 68,751 |
| Provision for (recovery of) uncollectible value-added taxes (Note 5) | 1,204 | (232) | (49,966) | 61 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 402,633 | 330,494 | 606,127 | 635,587 |
| LOSS FROM OPERATIONS | (612,192) | (436,111) | (1,183,565) | (898,300) |
| OTHER INCOME (EXPENSES) | | | | |
| Interest income | 1,396 | 290 | 1,904 | 581 |
| Interest and finance costs (Note 10) | (663) | (714) | (1,588) | (1,428) |
| Foreign currency transaction gain (loss) | 9,176 | (3,751) | (4,610) | (9,060) |
| Miscellaneous income (Note 6) | 5,417 | 127,850 | 5,417 | 129,438 |
| TOTAL OTHER INCOME | 15,326 | 123,675 | 1,123 | 119,531 |
| LOSS BEFORE INCOME TAXES | (596,866) | (312,436) | (1,182,442) | (778,769) |
| INCOME TAX EXPENSE | 2,237 | 1,516 | 119 | 316 |
| NET LOSS | (599,103) | (313,952) | (1,182,561) | (779,085) |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Foreign currency translation adjustments | — | (6,097) | 2,721 | (4,896) |
| COMPREHENSIVE LOS | \$ (599,103) | \$ (320,049) | \$ (1,179,840) | \$ (783,981) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ — | \$ — | \$ (0.01) | \$ — |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 4) | 177,894,967 | 159,072,657 | 177,894,967 | 159,072,657 |

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

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Other Comprehensive Income | Total |
|---|---------------------|--------------|----------------------------------|------------------------|----------------------------------|--------------|
| | Number of Shares | Amount | | | | |
| Balance, October 31, 2016 | 177,894,967 | \$ 1,778,949 | \$ 126,820,897 | \$ (120,281,820) | \$ 219,308 | \$ 8,537,334 |
| Stock option activity as follows: | | | | | | |
| - Stock-based compensation for options issued to officers, employees and consultants | — | — | 98,758 | — | — | 98,758 |
| Other comprehensive income | — | — | — | — | 2,721 | 2,721 |
| Net loss for the six month period ended April 30, 2017 | — | — | — | (1,182,561) | — | (1,182,561) |
| Balance, April 30, 2017 | 177,894,967 | \$ 1,778,949 | \$ 126,919,655 | \$ (121,464,381) | \$ 222,029 | \$ 7,456,252 |

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

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Six Months Ended | |
|---|-------------------------|-------------------|
| | April 30, | |
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,182,561) | \$ (779,085) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation, asset and property concession's impairment | 20,663 | 58,130 |
| (Recovery of) provision for uncollectible value-added taxes | (49,966) | 61 |
| Gain on sale of office and mining equipment (Note 6) | — | (127,612) |
| Other income | — | (913) |
| Foreign currency transaction loss (gain) | 8,348 | (8,338) |
| Stock options issued for compensation | 98,758 | 56,237 |
| Changes in operating assets and liabilities: | | |
| Value-added tax receivable | (44,766) | 15,591 |
| Income taxes receivable | — | 2,441 |
| Other receivables | (8,326) | 11,886 |
| Prepaid expenses and deposits | 51,506 | 52,895 |
| Accounts payable | 115,135 | 55,801 |
| Accrued liabilities and expenses | (119,990) | (25,402) |
| Income tax payable | (8,024) | (3,433) |
| Net cash used in operating activities | <u>(1,119,223)</u> | <u>(691,741)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of equipment | — | 139,766 |
| Net cash provided by investing activities | <u>—</u> | <u>139,766</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net cash provided by financing activities | — | — |
| Effect of exchange rates on cash and cash equivalents | (2,022) | 8,974 |
| Net decrease in cash and cash equivalents | (1,121,245) | (543,001) |
| Cash and cash equivalents, beginning of period | <u>1,467,328</u> | <u>950,878</u> |
| Cash and cash equivalents, end of period | <u>\$ 346,083</u> | <u>\$ 407,877</u> |

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

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (CONTINUED)

| | | Six Months Ended | |
|--|--|------------------|------|
| | | April 30, | |
| | | 2017 | 2016 |

SUPPLEMENTAL CASH FLOW DISCLOSURES:

| | | | | |
|-------------------|----|-------|----|-------|
| Income taxes paid | \$ | 8,009 | \$ | 4,785 |
| Interest paid | \$ | 1,588 | \$ | 1,428 |

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

NOTE 1 – ORGANIZATION, DESCRIPTION OF BUSINESS AND GOING CONCERN

Silver Bull Resources, Inc. (the "Company") was incorporated in the State of Nevada on November 8, 1993 as the Cadgie Company for the purpose of acquiring and developing mineral properties. The Cadgie Company was a spin-off from its predecessor, Precious Metal Mines, Inc. On June 28, 1996, the Company's name was changed to Metalline Mining Company. On April 21, 2011, the Company's name was changed to Silver Bull Resources, Inc. The Company has not realized any revenues from its planned operations and is considered an exploration stage company. The Company has not established any reserves with respect to its exploration projects and may never enter into the development stage with respect to any of its projects.

The Company engages in the business of mineral exploration. The Company currently owns or has the option to acquire a number of property concessions in Mexico (collectively known as the "Sierra Mojada Property"). The Company conducts its operations in Mexico through its wholly-owned subsidiary corporations, Minera Metalin S.A. de C.V. ("Minera Metalin") and Contratistas de Sierra Mojada S.A. de C.V. ("Contratistas") and through Minera Metalin's wholly-owned subsidiary Minas de Coahuila SBR S.A. de C.V. ("Minas").

On April 16, 2010, Metalline Mining Delaware, Inc., a wholly-owned subsidiary of the Company, was merged with and into Dome Ventures Corporation ("Dome"). As a result, Dome became a wholly-owned subsidiary of the Company. Dome has a wholly-owned subsidiary Dome Asia Inc. ("Dome Asia"), which is incorporated in the British Virgin Islands. Dome Asia has a wholly-owned subsidiary incorporated in Gabon, African Resources SARL Gabon ("African Resources"), as well as a 99.99%-owned subsidiary, Dome Minerals Nigeria Limited, incorporated in Nigeria.

The Company's efforts and expenditures have been concentrated on the exploration of properties, principally the Sierra Mojada Property located in Coahuila, Mexico. The Company has not determined whether its exploration properties contain ore reserves that are economically recoverable. The ultimate realization of the Company's investment in exploration properties is dependent upon the success of future property sales, the existence of economically recoverable reserves, and the ability of the Company to obtain financing or make other arrangements for exploration, development, and future profitable production activities. The ultimate realization of the Company's investment in exploration properties cannot be determined at this time.

Going Concern

Since its inception in November 1993, the Company has not generated revenue and has incurred a deficit of \$121,464,381. Accordingly, the Company has not generated cash flow from operations, and since inception the Company has relied primarily upon proceeds from private placements and registered direct offerings of the Company's equity securities and warrant exercises as the primary sources of financing to fund the Company's operations. As of April 30, 2017, the Company had working capital of \$178,571 and cash and cash equivalents of \$346,083. The Company's continuation as a going concern is dependent upon several possible financing and strategic options not limited to the following: obtaining adequate equity financing, joint venture opportunities on the Sierra Mojada Property, and asset divestitures. However, there is no assurance that the Company will be successful in pursuing these financing and strategic options. Accordingly, there is substantial doubt as to whether the Company's existing cash resources and working capital are sufficient to enable the Company to continue its operations for the next 12 months as a going concern.

These interim condensed consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary in the event the Company can no longer continue as a going concern. Such adjustments could be material.

NOTE 2 – BASIS OF PRESENTATION

The Company's interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and applicable rules of the U.S. Securities and Exchange Commission ("SEC") regarding interim reporting. All intercompany transactions and balances have been eliminated during consolidation. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The interim condensed consolidated balance sheet at October 31, 2016 was derived from the audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended October 31, 2016.

The interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, except as disclosed in Note 3. In the opinion of management, the interim condensed consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented. Uncertainties with respect to estimates and assumptions are inherent in the preparation of the Company's interim condensed consolidated financial statements. Accordingly, operating results for the six months ended April 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2017.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are defined in the Company's Annual Report on Form 10-K for the year ended October 31, 2016 filed on January 19, 2017, except as follows.

Recent Accounting Pronouncements Adopted in the Six-Month Period Ended April 30, 2017

Effective February 1, 2017, the Company adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") 2017-04, "Simplifying the Test for Goodwill Impairment (Topic 350): Intangibles—Goodwill and Other," which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The adoption of this update did not have a material impact on the Company's financial position, results of operations or cash flows and disclosures.

Effective November 1, 2016, the Company adopted the FASB's ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The adoption of this update did not have a material impact on the Company's financial position, results of operations or cash flows and disclosures.

Effective November 1, 2016, the Company adopted the FASB's ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented as a reduction to the carrying amount of that debt liability, not as an asset. The adoption of this update did not have a material impact on the Company's financial position, results of operations or cash flows and disclosures.

Effective November 1, 2016, the Company adopted the FASB's ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which amends the consolidation requirements in Accounting Standards Codification 810. The adoption of this update did not have a material impact on the Company's financial position, results of operations or cash flows and disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business to assist entities in the evaluation of acquisitions and disposals of assets or businesses. These changes become effective for the Company's fiscal year beginning November 1, 2018. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which will require entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. These changes become effective for the Company's fiscal year beginning November 1, 2018. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on the presentation and classification of certain cash receipts and payments in the statement of cash flows. These changes become effective for the Company's fiscal year beginning November 1, 2018. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which amends several aspects of the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. These changes become effective for the Company's fiscal year beginning November 1, 2017. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases," which will require lessees to recognize assets and liabilities for the rights and obligations created by most leases on the balance sheet. These changes become effective for the Company's fiscal year beginning November 1, 2019. Modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, is required with an option to use certain transition relief. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which (i) requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, (ii) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (iv) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year beginning November 1, 2018. Early application is permitted. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. These changes become effective for the Company's fiscal year beginning November 1, 2017. Early application is permitted. At this time, the Company has not determined the effects of this update on the Company's financial position, and disclosures.

In August 2015, the FASB issued ASU 2015-14, "Deferral of the Effective Date," which defers the effective date of ASU 2014-09, "Revenue from Contracts with Customers" to become effective for the Company's fiscal year beginning November 1, 2018. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which provides a revised, simpler measurement for inventory to be measured at the lower of cost and net realizable value. These changes become effective for the Company's fiscal year beginning November 1, 2017. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability To Continue as a Going Concern." ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for the Company's fiscal year and interim periods within those years beginning after November 1, 2017. Early application is permitted. At this time, the Company has not determined the effects of this update on the Company's financial position, results of operations or cash flows and disclosures.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the SEC did not or are not expected to have a material impact on the Company's present or future interim condensed consolidated financial statements.

NOTE 4 – LOSS PER SHARE

The Company had stock options and warrants outstanding at April 30, 2017 and 2016 that upon exercise were issuable into 19,054,686 and 12,132,858 shares of the Company's common stock, respectively. They were not included in the calculation of loss per share because they would have been anti-dilutive.

NOTE 5 – VALUE-ADDED TAX RECEIVABLE

Value-added tax ("VAT") receivable relates to VAT paid in Mexico. The Company estimates net VAT of \$162,381 will be received within 12 months of the balance sheet date. The allowance for uncollectible VAT taxes was estimated by management based upon a number of factors, including the length of time the returns have been outstanding, responses received from tax authorities, general economic conditions in Mexico and estimated net recovery after commissions. During the six months ended April 30, 2017, a recovery of VAT originating largely from Gabon of \$49,966 has been recorded in the condensed consolidated statements of operations and comprehensive loss.

The allowance for uncollectible VAT taxes relates to Mexico. A summary of the changes in the allowance for uncollectible VAT taxes for the six months ended April 30, 2017 is as follows:

| | | |
|--|----|---------------|
| Allowance for uncollectible VAT taxes – October 31, 2016 | \$ | 88,283 |
| VAT receivable allowance | | 2,985 |
| Foreign currency translation adjustment | | 476 |
| Write-off VAT receivable | | (890) |
| Allowance for uncollectible VAT taxes – April 30, 2017 | \$ | <u>90,854</u> |

NOTE 6 – ASSETS HELD FOR SALE

The Company has classified certain office and mining equipment as assets held for sale as at April 30, 2017 as these assets were ready for immediate sale in their present condition, the assets were expected to be sold within one year and management has an active program to locate buyers for these assets.

As at April 30, 2017, the assets held for sale had a net book value of \$11,656. Impairments of \$4,354 and \$7,554 were recorded on assets held for sale during the six months ended April 30, 2017 and 2016, respectively. During the six months ended April 30, 2017 and 2016, the Company recorded a gain on sale of office and mining equipment of \$nil and \$127,612, respectively, which is included in miscellaneous income in the condensed consolidated statements of operations and comprehensive loss.

NOTE 7 – OFFICE AND MINING EQUIPMENT

The following is a summary of the Company's office and mining equipment at April 30, 2017 and October 31, 2016, respectively:

| | <u>April 30,</u> <u>2017</u> | <u>October 31,</u> <u>2016</u> |
|----------------------------------|---------------------------------|-----------------------------------|
| Mining equipment | \$ 303,249 | \$ 291,529 |
| Vehicles | 53,451 | 53,451 |
| Buildings and structures | 182,436 | 182,436 |
| Computer equipment and software | 74,236 | 83,701 |
| Well equipment | 39,637 | 39,637 |
| Office equipment | 47,597 | 52,931 |
| | <u>700,606</u> | <u>703,685</u> |
| Less: Accumulated depreciation | (485,342) | (477,384) |
| Office and mining equipment, net | <u>\$ 215,264</u> | <u>\$ 226,301</u> |

NOTE 8 – PROPERTY CONCESSIONS

The following is a summary of the Company's property concessions in Sierra Mojada, Mexico as at April 30, 2017 and October 31, 2016:

| | |
|--|---------------------|
| Property concessions – April 30, 2017 and October 31, 2016 | \$ <u>5,004,386</u> |
|--|---------------------|

During the six months ended April 30, 2016, the Company decided to reduce the Company's concession holdings in Sierra Mojada, Mexico. As a result, the Company wrote off the capitalized property concession balance related to these concessions of \$30,170.

NOTE 9 – GOODWILL

Goodwill represents the excess, at the date of acquisition, of the purchase price of the business acquired over the fair value of the net tangible and intangible assets acquired. On April 30, 2017, the Company did not elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount but did perform the annual goodwill impairment test. Based on this impairment test, the Company determined that the fair value of the reporting unit exceeded the carrying amount and no impairment was necessary.

The following is a summary of the Company's goodwill balance as at April 30, 2017 and October 31, 2016:

| | |
|--|---------------------|
| Goodwill – April 30, 2017 and October 31, 2016 | \$ <u>2,058,031</u> |
|--|---------------------|

NOTE 10 – ACCRUED LIABILITIES AND EXPENSES

The Company financed an insurance premium at an interest rate of 7.49%. The insurance premium finance agreement has a maturity of less than one year and has a balance of \$21,750, which is included in accrued liabilities and expenses at April 30, 2017.

NOTE 11 – SHAREHOLDER RIGHTS PLAN

On June 11, 2007, the board of directors adopted a shareholders' right plan through the adoption of a Rights Agreement, which became effective immediately. In connection with the adoption of the Rights Agreement, the board of directors declared a distribution of one share of common stock purchase right (a "Right") for each outstanding share of the Company's common stock, payable to shareholders of record at the close of business on June 22, 2007. In accordance with the Rights Agreement, one Right was attached to each share of Company common stock issued since that date. Each Right was attached to the underlying common stock and would remain with the common stock if the stock is sold or transferred. As of April 30, 2017, there were 177,894,967 shares outstanding with Rights attached. The Rights expired on June 11, 2017.

In certain circumstances, in the event that any person acquired beneficial ownership of 20% or more of the outstanding stock of the Company's common stock, each holder of a Right, other than the acquirer, would have been entitled to receive, upon payment of the purchase price, which was initially set at \$20 per Right, a number of shares of the Company's common stock having a value equal to two times such purchase price.

NOTE 12 – COMMON STOCK

No shares of common stock were issued during the six months ended April 30, 2017 and 2016.

NOTE 13 – STOCK OPTIONS

The Company has one active stock option plan, the 2010 Stock Option and Stock Bonus Plan, as amended (the "2010 Plan"). Under the 2010 Plan, the lesser of (i) 30,000,000 shares or (ii) 10% of the total shares outstanding are reserved for issuance upon the exercise of options or the grant of stock bonuses. Under the 2006 Stock Option Plan (the "2006 Plan"), the Company was permitted to grant non-statutory and incentive options to employees, directors and consultants for up to a total of 5,000,000 shares of common stock. However, as of May 1, 2016, no additional options may be issued under the 2006 Plan.

Options are typically granted with an exercise price equal to the closing market price of the Company's stock at the date of grant, have a graded vesting schedule over approximately one to two years and have a contractual term of two to 10 years.

A summary of the range of assumptions used to value stock options granted for the six months ended April 30, 2017 and 2016 are as follows:

| Options | Six Months Ended April 30, | |
|--------------------------|-------------------------------|---------------|
| | 2017 | 2016 |
| Expected volatility | 78% – 87% | 65% – 70% |
| Risk-free interest rate | 1.35% – 1.56% | 0.83% – 0.98% |
| Dividend yield | — | — |
| Expected term (in years) | 2.50 – 3.50 | 2.50 – 3.50 |

During the six months ended April 30, 2017, the Company granted options to acquire 4,075,000 shares of common stock with a weighted-average grant-date fair value of \$0.05 per share and an exercise price of Canadian dollar ("SCDN") 0.125 per share. No options were exercised during the six months ended April 30, 2017.

During the six months ended April 30, 2016, the Company granted options to acquire 4,075,000 shares of common stock with a weighted-average grant-date fair value of \$0.02 per share and an exercise price of SCDN 0.075 per share. No options were exercised during the six months ended April 30, 2016.

The following is a summary of stock option activity for the six months ended April 30, 2017:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---------------------------------|-------------|---------------------------------|---|---------------------------|
| Outstanding at October 31, 2016 | 11,517,858 | \$ 0.28 | 2.66 | \$ 227,891 |
| Granted | 4,075,000 | 0.09 | | |
| Expired | (1,050,000) | 0.55 | | |
| Cancelled | (28,572) | 2.18 | | |
| Outstanding at April 30, 2017 | 14,514,286 | \$ 0.20 | 3.12 | \$ 104,395 |
| Exercisable at April 30, 2017 | 10,239,286 | \$ 0.25 | 2.52 | \$ 69,597 |

The Company recognized stock-based compensation costs for stock options of \$98,758 and \$56,237 for the six months ended April 30, 2017 and April 30, 2016, respectively. As of April 30, 2017, there was \$150,718 of total unrecognized compensation expense, which is expected to be recognized over a weighted average period of 0.72 years.

Summarized information about stock options outstanding and exercisable at April 30, 2017 is as follows:

| Options Outstanding | | | | Options Exercisable | | |
|---------------------|--------------------|---|---------------------------------|---------------------|---------------------------------|--|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price | |
| \$ 0.06 | 4,075,000 | 3.82 | \$ 0.06 | 2,716,666 | \$ 0.06 | |
| 0.09 | 4,075,000 | 4.93 | 0.09 | 1,358,334 | 0.09 | |
| 0.19 – 0.26 | 2,625,000 | 2.56 | 0.25 | 2,425,000 | 0.26 | |
| 0.37 | 1,705,000 | 1.15 | 0.37 | 1,705,000 | 0.37 | |
| 0.44 – 0.50 | 2,020,000 | 0.45 | 0.49 | 2,020,000 | 0.49 | |
| 2.18 | 14,286 | 0.72 | 2.18 | 14,286 | 2.18 | |
| \$ 0.06 – 2.18 | 14,514,286 | 3.12 | \$ 0.20 | 10,239,286 | \$ 0.25 | |

NOTE 14 – WARRANTS

A summary of warrant activity for the six months ended April 30, 2017 is as follows:

| Warrants | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|-----------|---------------------------------|---|---------------------------|
| Outstanding and exercisable at October 31, 2016 | 4,540,400 | \$ 0.12 | 2.67 | \$ — |
| Outstanding and exercisable at April 30, 2017 | 4,540,400 | \$ 0.12 | 2.18 | \$ — |

No warrants were issued or exercised during the six months ended April 30, 2017 and 2016.

Summarized information about warrants outstanding and exercisable at April 30, 2017 is as follows:

| Warrants Outstanding and Exercisable | | | |
|--------------------------------------|--------------------|---|---------------------------------|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
| \$ 0.12 | 4,340,000 | 2.22 | \$ 0.12 |
| 0.15 | 200,400 | 1.22 | 0.15 |
| \$ 0.12 – 0.15 | 4,540,400 | 2.18 | \$ 0.12 |

If the closing price of the common stock on the TSX is higher than SCDN 0.30 for 20 consecutive trading days, then on the 20th consecutive trading day (the "Acceleration Trigger Date") the expiry date of the above warrants may be accelerated to the 20th trading day after the Acceleration Trigger Date by the issuance, within three trading days of the Acceleration Trigger Date, of a news release announcing such acceleration.

NOTE 15 – FINANCIAL INSTRUMENTS

Fair Value Measurements

All financial assets and financial liabilities are recorded at fair value on initial recognition. Transaction costs are expensed when they are incurred, unless they are directly attributable to the acquisition of financial assets or the assumption of liabilities carried at amortized cost, in which case the transaction costs adjust the carrying amount.

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and |
| Level 3 | Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity). |

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of April 30, 2017 and October 31, 2016, the Company had no financial assets or liabilities required to be reported for fair value purposes.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities and expenses approximate fair value at April 30, 2017 and October 31, 2016 due to the short maturities of these financial instruments.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. To mitigate exposure to credit risk on financial assets, the Company has established policies to ensure liquidity of funds and ensure that counterparties demonstrate acceptable levels of creditworthiness.

The Company maintains its U.S. dollar and Canadian dollar cash and cash equivalents in bank and demand deposit accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000, and Canadian dollar cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation ("CDIC") for up to \$CDN 100,000. Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they relate to U.S. dollar deposits held in Canadian financial institutions. As of April 30, 2017 and October 31, 2016, the Company's cash and cash equivalent balances held in United States and Canadian financial institutions included \$254,441 and \$1,375,673, respectively, which was not insured by the FDIC or CDIC, respectively. The Company has not experienced any losses on such accounts, and management believes that using major financial institutions with high credit ratings mitigates the credit risk to cash and cash equivalents.

The Company also maintains cash in bank accounts in Mexico. These accounts are denominated in the local currency and are considered uninsured. As of April 30, 2017 and October 31, 2016, the U.S. dollar equivalent balance for these accounts was \$18,287 and \$17,010, respectively.

Interest Rate Risk

The Company holds substantially all of its cash and cash equivalents in bank and demand deposit accounts with major financial institutions. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash and cash equivalent balances during the six months ended April 30, 2017, a 1% decrease in interest rates would have resulted in a reduction of approximately \$1,051 in interest income for the period.

Foreign Currency Exchange Risk

The Company is not subject to any material market risk related to foreign currency exchange rate fluctuations.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Compliance with Environmental Regulations

The Company's activities are subject to laws and regulations controlling not only the exploration and mining of mineral properties, but also the effect of such activities on the environment. Compliance with such laws and regulations may necessitate additional capital outlays or affect the economics of a project, and cause changes or delays in the Company's activities.

Property Concessions in Mexico

To properly maintain property concessions in Mexico, the Company is required to pay a semi-annual fee to the Mexican government and complete annual assessment work.

Royalty

The Company has agreed to pay a 2% net smelter return royalty on certain property concessions within the Sierra Mojada Property based on the revenue generated from production. Total payments under this royalty are limited to \$6.875 million (the "Royalty").

Litigation and Claims

On May 20, 2014, a local cooperative named Sociedad Cooperativa de Exploración Minera Mineros Norteños, S.C.L. ("Mineros Norteños") filed an action in the Local First Civil Court in the District of Morelos, State of Chihuahua, Mexico, against the Company's subsidiary, Minera Metalin, claiming that Minera Metalin breached an agreement regarding the development of the Sierra Mojada project. On January 19, 2015, the case was moved to the Third District Court (of federal jurisdiction). Mineros Norteños is seeking payment of the Royalty, including interest at a rate of 6% per annum since August 30, 2004, even though that no revenue has been produced from the applicable mining concessions, and it is also seeking payment of wages to the cooperative's members since August 30, 2004, even though none of the individuals were ever hired or performed work for Minera Metalin under this agreement and Minera Metalin never committed to hiring them. The Company and the Company's Mexican legal counsel believe that this claim is without merit and have asserted all applicable defenses. All necessary testimony and evidence has been produced before the court and the Company expects to receive a final judgment by the trial court in Chihuahua by the middle of the third calendar quarter of 2017. The Company has not accrued any amounts in its interim condensed consolidated financial statements with respect to this claim.

On February 15, 2016, Messrs. Jaime Valdez Farias and Maria Asuncion Perez Alonso (collectively, "Valdez") filed an action before the Local First Civil Court of Torreon, State of Coahuila, Mexico, against the Company's subsidiary, Minera Metalin, claiming that Minera Metalin had breached an agreement regarding the development of the Sierra Mojada project. Valdez seeks payment in the amount of \$5.9 million for the alleged breach of the agreement. On April 28, 2016, Minera Metalin filed its response to the complaint, asserting various defenses, including that Minera Metalin terminated the agreement before the payment obligations arose and that certain conditions precedent to such payment obligations were never satisfied by Valdez. All means of evidence have been submitted to the Court. The Company and the Company's Mexican legal counsel have asserted all applicable defenses. In May 2017, a final judgment was entered finding for the defendant, acquitting it of all and any of the plaintiff's claims and demands. The Company has not accrued any amounts in its interim condensed consolidated financial statements with respect to this claim.

From time to time, the Company is involved in other disputes, claims, proceedings and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all claims against the Company, and pursue its full legal rights in cases where the Company has been harmed. Although the ultimate outcome of these proceedings cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no other currently pending or overtly threatened proceeding is expected to have a material adverse effect on the Company's business, financial condition or results of operations.

NOTE 17 – SEGMENT INFORMATION

The Company operates in a single reportable segment: the exploration of mineral property interests. The Company has mineral property interests in Sierra Mojada, Mexico.

Geographic information is approximately as follows:

| | For the Three Months Ended April 30, | | For the Six Months Ended April 30, | |
|----------|---|--------------|---------------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Mexico | \$ (198,000) | \$ 37,000 | \$ (606,000) | \$ (125,000) |
| Canada | (401,000) | (342,000) | (663,000) | (645,000) |
| Gabon | - | (9,000) | 86,000 | (9,000) |
| Net Loss | \$ (599,000) | \$ (314,000) | \$ (1,183,000) | \$ (779,000) |

The following table details the allocation of assets included in the accompanying balance sheet at April 30, 2017:

| | Canada | Mexico | Total |
|----------------------------------|------------|--------------|--------------|
| Cash and cash equivalents | \$ 328,000 | \$ 18,000 | \$ 346,000 |
| Value-added tax receivable, net | - | 162,000 | 162,000 |
| Other receivables | 12,000 | 2,000 | 14,000 |
| Prepaid expenses and deposits | 44,000 | 19,000 | 63,000 |
| Assets held for sale | - | 12,000 | 12,000 |
| Office and mining equipment, net | - | 215,000 | 215,000 |
| Property concessions | - | 5,004,000 | 5,004,000 |
| Goodwill | - | 2,058,000 | 2,058,000 |
| | \$ 384,000 | \$ 7,490,000 | \$ 7,874,000 |

The following table details the allocation of assets included in the accompanying balance sheet at October 31, 2016:

| | Canada | Mexico | Total |
|----------------------------------|---------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,450,000 | \$ 17,000 | \$ 1,467,000 |
| Value-added tax receivable, net | - | 117,000 | 117,000 |
| Other receivables | 3,000 | 2,000 | 5,000 |
| Prepaid expenses and deposits | 93,000 | 23,000 | 116,000 |
| Assets held for sale | - | 21,000 | 21,000 |
| Office and mining equipment, net | - | 226,000 | 226,000 |
| Property concessions | - | 5,005,000 | 5,005,000 |
| Goodwill | - | 2,058,000 | 2,058,000 |
| | <u>\$ 1,546,000</u> | <u>\$ 7,469,000</u> | <u>\$ 9,015,000</u> |

The Company has significant assets in Coahuila, Mexico. Although Mexico is generally considered economically stable, it is always possible that unanticipated events in Mexico could disrupt the Company's operations. The Mexican government does not require foreign entities to maintain cash reserves in Mexico.

The following table details the allocation of exploration and property holding costs for the exploration properties:

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-----------------------------------|---------------------|---------------------------------|---------------------|
| | April 30, | | April 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Exploration and property holding (costs) recovery for the period | | | | |
| Mexico Sierra Mojada | \$ (210,000) | \$ (96,000) | \$ (611,000) | \$ (253,000) |
| Gabon Mitzic | - | (10,000) | 34,000 | (10,000) |
| | <u>\$ (210,000)</u> | <u>\$ (106,000)</u> | <u>\$ (577,000)</u> | <u>\$ (263,000)</u> |