# Starcore International Mines Ltd.

**Consolidated Financial Statements**

**For the period ended April 30, 2016 and the year ended July 31, 2015**

**(Audited)**

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Starcore International Mines Ltd.

We have audited the accompanying consolidated financial statements of Starcore International Mines Ltd., which comprise the consolidated statements of financial position as at April 30, 2016 and July 31, 2015 and the consolidated statements of operations and comprehensive income, cash flows and changes in equity for the nine month period ended April 30, 2016 and the year ended July 31, 2015, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Starcore International Mines Ltd. as at April 30, 2016 and July 31, 2015 and its financial performance and its cash flows for the nine month period ended April 30, 2016 and the year ended July 31, 2015 in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada | Chartered Professional Accountants

July 22, 2016

**Starcore International Mines Ltd.**
**Consolidated Statements of Financial Position**
**(in thousands of Canadian dollars)**

| As at | | April 30, 2016 | | July 31, 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | 4,248 | $ | 3,370 |
| Short-term Investments (note 6) | | 5,742 | | 2,615 |
| Amounts Receivable (notes 5 & 7) | | 2,221 | | 3,435 |
| Inventory (note 8) | | 1,877 | | 2,037 |
| Prepaid Expenses and Advances | | 191 | | 563 |
| **Total Current Assets** | | 14,279 | | 12,020 |
| **Non-Current** | | | | |
| Mining Interest, Plant and Equipment (notes 5 & 9) | | 56,618 | | 50,632 |
| Exploration and Evaluation Assets (note 10) | | 3,864 | | 3,411 |
| Reclamation Deposits | | 165 | | 165 |
| Deferred Tax Assets | | 3,981 | | 2,969 |
| **Total Non-Current Assets** | | 64,628 | | 57,177 |
| **Total Assets** | $ | 78,907 | $ | 69,197 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Trade and Other Payables | $ | 3,091 | $ | 1,950 |
| Current Portion of Loan Payable (note 11) | | 4,619 | | - |
| **Total Current Liabilities** | | 7,710 | | 1,950 |
| **Non-Current** | | | | |
| Loan Payable (note 11) | | 1,369 | | 1,305 |
| Rehabilitation and Closure Cost Provision (note 12) | | 1,091 | | 1,162 |
| Deferred Tax Liabilities | | 10,864 | | 12,674 |
| **Total Non-Current Liabilities** | | 13,324 | | 15,141 |
| **Total Liabilities** | $ | 21,034 | $ | 17,091 |
| **Equity** | | | | |
| Share Capital (note 13) | $ | 50,605 | $ | 45,354 |
| Equity Reserve | | 11,173 | | 11,173 |
| Foreign Currency Translation Reserve | | 5,386 | | 5,065 |
| Accumulated Deficit | | (9,291) | | (9,486) |
| **Total Equity** | | 57,873 | | 52,106 |
| **Total Liabilities and Equity** | $ | 78,907 | $ | 69,197 |

**Subsequent Events (notes 9 & 13)**
**Commitments (notes 10 and 15)**

**Approved by the Directors:**

***"Robert Eadie"*** Director ***"Gary Arca"*** Director

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

## Starcore International Mines Ltd.
**Consolidated Statements of Operations and Comprehensive Income**
**(in thousands of Canadian dollars except per share amounts)**

| For the | Nine months ended April 30, 2016 | Year ended July 31, 2015 |
|---|---|---|
| **Revenues** | | |
| Mined ore | $ **20,326** | $ 28,073 |
| Purchased concentrate | **-** | 332 |
| **Total Revenues** | **20,326** | 28,405 |
| **Cost of Sales** | | |
| Mined ore | **14,093** | 20,768 |
| Purchased concentrate | **-** | 306 |
| Depreciation and depletion | **4,714** | 6,686 |
| **Total Cost of Sales** | **18,807** | 27,760 |
| **Earnings from mining operations** | **1,519** | 645 |
| Financing income (costs) (note 11) | **(387)** | 3 |
| Foreign exchange gain (loss) | **(159)** | 1,742 |
| Professional and consulting fees | **(1,031)** | (1,115) |
| Management fees and salaries (notes 13 & 15) | **(918)** | (1,210) |
| Office and administration | **(1,114)** | (1,446) |
| Other expenses | **-** | (91) |
| Shareholder relations | **(110)** | (128) |
| Regulatory and transfer agent fees | **(244)** | (110) |
| **(Loss) earnings before taxes** | **(2,444)** | (1,710) |
| **Income tax recovery (note 19)** | | |
| Current | **57** | 299 |
| Deferred | **2,582** | 1,621 |
| **Earnings for the year** | **195** | 210 |
| **Other comprehensive income** | | |
| **Item that may subsequently be reclassified to income** | | |
| Foreign currency translation differences | **321** | 5,980 |
| **Comprehensive income for the year** | $ **516** | $ 6,190 |
| **Basic earnings per share (note 18)** | $ **0.00** | $ 0.00 |
| **Diluted earnings per share (note 18)** | $ **0.00** | $ 0.00 |

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

**Starcore International Mines Ltd.**
**Consolidated Statements of Cash Flows**
**(in thousands of Canadian dollars)**

| For the | Nine months ended April 30, 2016 | Year ended July 31, 2015 |
|---|---|---|
| **Cash provided by** | | |
| **Operating activities** | | |
| Earnings for the period | $ **195** | $ 210 |
| Items not involving cash: | | |
| Depreciation and depletion | **4,784** | 6,688 |
| Other expenses | **-** | 175 |
| Income tax (recovery) (note 19) | **(2,639)** | (1,920) |
| Interest on long-term debt (note 11) | **283** | - |
| Interest revenue | **(12)** | (20) |
| Rehabilitation and closure cost accretion (note 12) | **65** | 79 |
| Share-based payments (note 13) | **-** | 144 |
| Unwinding of discount on long-term debt (note 11) | **42** | - |
| Write-down for obsolete equipment | **3** | - |
| Cash generated by operating activities before working capital changes | **2,721** | 5,356 |
| Change in non-cash working capital items | | |
| Amounts receivable | **1,214** | - |
| Income tax paid | **-** | 16 |
| Inventory | **152** | 519 |
| Prepaid expenses and advances | **482** | (557) |
| Trade and other payables | **790** | (2,105) |
| **Cash provided by operating activities** | **5,359** | 3,229 |
| **Financing activities** | | |
| Advance (repayment) of loan payable (note 11) | **3,850** | 1,289 |
| Dividends paid (note 13) | **-** | (2,922) |
| Interest paid | **(97)** | - |
| Financing fees | **(90)** | - |
| Share issuances | **-** | 386 |
| **Cash provided by (outflows) for financing activities** | **3,663** | (1,247) |
| **Investing activities** | | |
| Cash acquired on acquisition of subsidiaries | **-** | 4 |
| Interest received | **7** | 7 |
| Investment in exploration and evaluation assets (note 10) | **(517)** | (303) |
| Investment in subsidiaries | **-** | (2,188) |
| Purchase of mining interest, plant and equipment (note 9) | **(3,700)** | (3,299) |
| Reclamation deposits | **-** | (122) |
| Sale (purchase) of short-term investments (note 6) | **(3,162)** | 2,002 |
| **Cash outflows for investing activities** | **(7,372)** | (3,899) |
| **Total (decrease) increase in cash** | **1,650** | (1,917) |
| **Effect of foreign exchange rate changes on cash** | **(772)** | (167) |
| **Cash, beginning of period** | **3,370** | 5,454 |
| **Cash, end of period** | $ **4,248** | $ 3,370 |

Non-cash transactions – notes 11 & 13

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

## Starcore International Mines Ltd.

**Consolidated Statements of Changes in Equity**
**For the period ended April 30, 2016 and year ended July 31, 2015**
**(in thousands of Canadian dollars, except for number of shares)**

| | | Number of Shares Outstanding | Share Capital | Equity Reserve | Foreign Currency Translation Reserve | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, July 31, 2014 | | 35,878,915 | $ 44,023 | $ 11,213 | $ (915) | $ (6,774) | $ 47,547 |
| Issued for cash pursuant to: | | | | | | | |
| - Exercise of options | - at $0.60 | 643,750 | 570 | (184) | - | - | 386 |
| - Acquisition of American Consolidated Minerals | - at $0.52 | 1,464,095 | 761 | - | - | - | 761 |
| Dividends issued | | - | - | - | - | (2,922) | (2,922) |
| Share-based compensation | | - | - | 144 | - | - | 144 |
| Foreign currency translation | | - | - | - | 5,980 | - | 5,980 |
| Earnings for the year | | - | - | - | - | 210 | 210 |
| Balance, July 31, 2015 | | 37,986,760 | 45,354 | 11,173 | 5,065 | (9,486) | 52,106 |
| Issued for cash pursuant to: | | | | | | | |
| - Acquisition of Cortez Gold Corp. | - at $0.42 | 7,166,888 | 3,010 | - | - | - | 3,010 |
| - Share subscriptions conversion | - at $0.56 | 3,993,203 | 2,241 | - | - | - | 2,241 |
| Foreign currency translation | | - | - | - | 321 | - | 321 |
| Earnings for the period | | - | - | - | - | 195 | 195 |
| **Balance, April 30, 2016** | | **49,146,851** | **$ 50,605** | **$ 11,173** | **$ 5,386** | **$ (9,291)** | **$ 57,873** |

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

## 1. Corporate Information

Starcore International Mines Ltd. is the parent company of its consolidated group (the "Company" or "Starcore") and was incorporated in Canada with its head office located at Suite 750 – 580 Hornby Street, Vancouver, British Columbia, V6C 3B6.

Starcore is engaged in extracting and processing gold and silver in Mexico through the San Martin mine in Queretaro, Mexico owned by Compañia Minera Peña de Bernal, S.A. de C.V. ("Bernal"), which was purchased by the Company in 2007. The San Martin mine, which has been in operation since 1993 producing gold and silver, is a self-sustaining mining operation in Mexico and is the Company's sole source of operating cash flows. The Company is also engaged in acquiring mining related operating assets and exploration assets in North America directly and through corporate acquisitions (see notes 5 & 10).

## 2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements for the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

On May 13, 2016, the Company changed its fiscal year end from July 31 to April 30. With this year-end change, the Company will report a one-time transitional period for the nine months ended April 30, 2016.

Effective December 14, 2015, the Company completed a 4:1 share consolidation (note 13). All common share and per share amounts have been retroactively restated.

The financial statements were authorized for issue by the Board of Directors on July 22, 2016.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except certain financial instruments, which are measured at fair value, as explained in the Company's accounting policies discussed in note 3.

The consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency, and all values are rounded to the nearest thousand dollars, unless otherwise indicated.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

## 2. Basis of Preparation

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, which are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company's wholly-owned subsidiaries, Bernal and Altiplano, along with various other subsidiaries, carry out their operations in Mexico, U.S.A. and in Canada.

All intra-group transactions, balances, income and expenses are eliminated, in full, on consolidation.

## 3. Summary of Significant Accounting Policies

The accounting policies set out below were applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Translation

The functional currency of Starcore, the parent, is the Canadian dollar ("CAD") and the functional currency of its subsidiaries is the United States dollar ("USD") (collectively "Functional Currency"). Foreign currency accounts are translated into the Functional Currency as follows:

- At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the Functional Currency by the use of the exchange rate in effect at that date. At the period end date, unsettled monetary assets and liabilities are translated into the Functional Currency by using the exchange rate in effect at the period end.

Foreign exchange gains and losses are recognized in net earnings and presented in the Consolidated Statement of Operations and Comprehensive Income in accordance with the nature of the transactions to which the foreign currency gains and losses relate, except for foreign exchange gains and losses from translating available-for-sale investments in marketable securities which are recognized in other comprehensive income as part of the total change in fair values of the securities. Unrealized foreign exchange gains and losses on cash and cash equivalent balances denominated in foreign currencies are disclosed separately in the Consolidated Statements of Cash Flows.

b) Foreign Operations

The assets and liabilities of foreign operations with Functional Currencies differing from the presentation currency, including fair value adjustments arising on acquisition, are translated to CAD at exchange rates in effect at the reporting date. The income and expenses of foreign operations with Functional Currencies differing from the presentation currency are translated into CAD at the year-to-date average exchange rates.

The Company's foreign currency differences are recognised and presented in other comprehensive income as a foreign currency translation reserve ("Foreign Currency Translation Reserve"), a component of equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

**3. Summary of Significant Accounting Policies – (cont'd)**

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. At April 30, 2016 and July 31, 2015, the Company has no cash equivalents.

d) Short Term Investments

Short term investments, which consist of fixed term deposits held at a bank with a maturity with a maturity of more than three months at the time of issuance, are recorded at fair value.

e) Revenue Recognition

Revenue from the sale of metals is recognized when the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from metal concentrate sales are subject to adjustment upon final settlement of metal prices, weights, and assays as of a date that may be up to two weeks after the shipment date. The Company records adjustments to revenues monthly based on quoted forward prices for the expected settlement period. Adjustments for weights and assays are recorded when results are determinable or on final settlement. Accounts receivable for metal concentrate sales are therefore measured at fair value.

f) Inventory

Finished goods and work-in-process are measured at the lower of average cost and net realizable value. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future costs to convert the inventories into saleable form and estimated costs to sell.

Ore extracted from the mines is processed into finished goods (gold and by-products in doré). Costs are included in work-in-process inventory based on current costs incurred up to the point prior to the refining process, including applicable depreciation and depletion of mining interests, and removed at the average cost per recoverable ounce of gold. The average costs of finished goods represent the average costs of work-in-process inventories incurred prior to the refining process, plus applicable refining costs.

Supplies are measured at average cost. In the event that the net realizable value of the finished product, the production of which the supplies are held for use in, is lower than the expected cost of the finished product, the supplies are written down to net realizable value. Replacement costs of supplies are generally used as the best estimate of net realizable value. The costs of inventories sold during the year are presented in the Company's profit and loss.

**3. Summary of Significant Accounting Policies – (cont'd)**

g) Mining Interest, Plant and Equipment

Mining interests represent capitalized expenditures related to the development of mining properties and related plant and equipment.

*Recognition and Measurement*

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Mining expenditures incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized. Mine development costs incurred to maintain current production are included in the consolidated statement of operations. Exploration costs relating to the current mine in production are expensed to net income as incurred due to the immediate exploitation of these areas or an immediate determination that they are not exploitable.

Borrowing costs that are directly attributable to the acquisition and preparation for use, are capitalized. Capitalization of borrowing costs, begins when expenditures are incurred and activities are undertaken to prepare the asset for its intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred during the period. All other borrowing costs are expensed as incurred.

The capitalization of borrowing costs is discontinued when substantially all of the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Capitalized borrowing costs are amortized over the useful life of the related asset.

*Major Maintenance and Repairs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Company's profit or loss during the financial year in which they are incurred.

*Subsequent Costs*

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in the Company's profit or loss as incurred.

**3. Summary of Significant Accounting Policies – (cont'd)**

g) Mining Interest, Plant and Equipment – (cont'd)

*Leased Equipment*

Leased assets in which the Company receives substantially all of the risks and rewards of ownership of the asset are capitalized as finance leases at the lower of the fair value of the asset or the estimated present value of the minimum lease payments. The corresponding lease obligation is recorded within debt on the statement of financial position.

Assets under operating leases are not capitalized and rental payments are included in earnings based on the terms of the lease.

*Derecognition*

Upon sale or abandonment, the cost of the property, plant, and equipment and related accumulated depreciation or depletion, are removed from the accounts and any gains or losses thereon are included in operations.

*Depreciation and Impairment*

Mining interest, plant and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depletion of mine properties is charged on a unit-of-production basis over proven and probable reserves and resources expected to be converted to reserves. Currently the depletion base is approximately 6 years of expected production. Depreciation of plant and equipment and corporate office equipment, vehicles, software and leaseholds is calculated using the straight-line method, based on the lesser of economic life of the asset and the expected life of mine of approximately 6 years. Where components of an asset have different useful lives, depreciation is calculated on each separate part. Depreciation commences when an asset is available for use. At the end of the each calendar year estimates of proven and probable gold reserves and a portion of resources expected to be converted to reserves are updated and the calculations of amortization of mining interest, plant and equipment is prospectively revised.

The Company reviews and evaluates its mining interests, plant and equipment for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the recoverable value of a cash generating unit is less than the carrying amount of the assets. An impairment loss is measured and recorded based on the greater of the cash generating unit's fair value less cost to sell or its value in use versus its carrying value. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

Mining interests, plant and equipment that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the consolidated statement of operations.

## 3. Summary of Significant Accounting Policies – (cont'd)

h) Rehabilitation and Closure Cost Provision

The Company records a provision for the estimated future costs of rehabilitation and closure of operating and inactive mines and development projects, which are discounted to net present value using the risk free interest rates applicable to the future cash outflows. Estimates of future costs represent management's best estimates which incorporate assumptions on the effects of inflation, movements in foreign exchange rates and the effects of country and other specific risks associated with the related liabilities. The provision for the Company's rehabilitation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs in the Consolidated Statement of Operations and Comprehensive Income. The provision for rehabilitation and closure cost obligations is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to risk free interest rates.

Rehabilitation and closure cost obligations relating to operating mines and development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties. Changes to the obligations are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the capitalized rehabilitation and closure costs, in which case, the capitalized rehabilitation and closure costs is reduced to nil and the remaining adjustment is included in production costs in the Consolidated Statement of Operations and Comprehensive Income. Rehabilitation and closure cost obligations related to inactive mines are included in production costs in the Consolidated Statement of Operations and Comprehensive Income on initial recognition and subsequently when re-measured.

i) Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation ("E&E") expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying and sampling costs, drilling costs, payments made to contractors, geologists, consultants, and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to E&E activities, including general and administrative overhead costs, are expensed in the period in which they occur.

When a project is determined to no longer have commercially viable prospects to the Company, E&E expenditures in respect of that project are deemed to be impaired. As a result, those E&E expenditures, in excess of estimated recoveries, are written off to the Company's profit or loss.

The Company assesses E&E assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction". E&E assets are tested for impairment before the assets are transferred to development properties.

Any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

**3. Summary of Significant Accounting Policies – (cont'd)**

j) Financial Instruments

Financial instruments are classified as one of the categories below based upon the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Loans and Receivables*

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently carried at amortised cost using the effective interest rate method, less any impairment losses.

Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company's cash accounted for at fair value and amounts receivable are all accounted for as loans and receivables.

*Available-for-Sale*

Non-derivative financial assets not included in the above category are classified as available-for-sale. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/ income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income is recognized in the Company's profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to the Company's profit or loss.

*Impairment of Financial Assets*

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred subsequent to the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

**3. Summary of Significant Accounting Policies – (cont'd)**

j) Financial Instruments – (cont'd)

*Financial Liabilities*

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprised of trade and other payables, and loan payable. These liabilities are recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortised cost using the effective interest rate method. This ensures that, any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.
Fair value hierarchy

Financial instruments recognized at fair value on the consolidated balance sheets must be classified into one of the three following fair value hierarchy levels:

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

Level 2 – measurement based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability;

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Company's financial instruments recognized at fair value consist of short term investments having a fair value of $5,742 (2015 – $2,615) measured in accordance with Level 1.

k) Income Taxes

Current tax and deferred taxes are recognized in the Company's profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

**3. Summary of Significant Accounting Policies – (cont'd)**

k) Income Taxes – (cont'd)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

l) Share Capital

Financial instruments issued by the Company are classified as equity, only to the extent that they do not meet the definition of a financial liability or asset. The Company's common shares, share warrants and share options are classified as equity instruments.

Incremental costs, directly attributable to the issue of new shares, warrants or options, are shown in equity as a deduction, net of tax, from proceeds.

m) Profit or Loss per Share

Basic profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period.

Diluted profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares, by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted at the beginning of the period.

n) Share-based Payments

Where equity-settled share options are awarded to employees or non-employees, the fair value of the options at the date of grant is charged to the Company's profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date, are taken into account so that the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modifications, is charged to the Company's profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the Company's profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

**3. Summary of Significant Accounting Policies – (cont'd)**

n) Share-based Payments – (cont'd)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the Company's profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share based payments are reflected in equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in equity reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.
Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent that the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Where vesting conditions are not satisfied and options are forfeited, the Company reverses the fair value amount of the unvested options which had been recognized over the vesting period.

o) New and Revised Accounting Standards

The following accounting standards have been issued or amended but are not yet effective. The Company has not early adopted these new and amended standards. The Company continues to evaluate the new standards but currently no material impact is expected as a result of the adoptions of these new and amended standards:

- IFRS 9 "Financial Instruments"
- IFRS 14 "Regulatory Deferral Accounts"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRS 16 "Leases"
- IAS 12 "Income Taxes"
- IAS 16 "Property Plant and Equipment"
- Annual Improvements to IFRSs 2012–2014 Cycle

## 4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in the Company's profit or loss in the period of the change, if it affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

a) Economic Recoverability and Profitability of Future Economic Benefits of Mining Interests

Management has determined that mining interests, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

b) Impairments

The Company assesses its mining interest, plant and equipment assets annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance.

c) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time that the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provision may be higher or lower than currently provided.

The inflation rate applied to estimated future rehabilitation and closure costs is 3.5% and the discount rate currently applied in the calculation of the net present value of the provision is 8%.

## 4. Critical Accounting Estimates and Judgments – (cont'd)

d) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recuperated.

e) Share-based Payment

The Company measures the cost of equity-settled transactions with employees, and some with non-employees, by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, expected forfeiture rate, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 13.

f) Mineral Reserves and Mineral Resource Estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its mineral reserve and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mining reserve or mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

**(in thousands of Canadian dollars unless otherwise stated)**

## 4. Critical Accounting Estimates and Judgments – (cont'd)

g) Units of production depletion

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumption, including the amount of recoverable reserves and estimate of future capital expenditure. Changes are accounted for prospectively.

## 5. Acquisition of Subsidiaries

*Acquisition of Cortez Gold Corp.*

During the year ended July 31, 2015, the Company signed of a letter of intent with Cortez Gold Corp. ("Cortez or "CUT") (TSXV: CUT) to acquire all of the outstanding securities of CUT in an all-share transaction to be completed pursuant to a court approved Plan of Arrangement under the Business Corporations Act (British Columbia) (the "Arrangement"). Under the terms of the planned acquisition, each CUT shareholder would receive three Starcore common shares for every one CUT common share held by CUT shareholders (the "Exchange Ratio"). Cortez is a Vancouver-based junior resource company that owns the Altiplano gold and silver processing plant in Matehuala, Mexico and has a director and officer in common with the Company.

Shareholders of Cortez approved the Arrangement which was finalised on approval by the British Columbia Supreme Court on August 5, 2015. Pursuant to the Arrangement, the former Cortez shareholders hold 7,166,888 common shares of Starcore, representing 15.87%, of the 45,153,599 outstanding common shares of Starcore after issue of shares pursuant to the Arrangement. In addition, each holder of the outstanding common share purchase warrants of CUT may receive such number of replacement warrants of Starcore based upon the Exchange Ratio and at the exercise price adjusted based upon the Exchange Ratio.

The Company valued the 7,166,888 shares at the fair market value on date of issue of $0.42 per share, for total consideration of $3,010, which was accounted for as acquisition of assets allocated based on their relative fair values on the closing date. The following purchase price allocation is based on management's best estimates and assumptions after taking into account all relevant information available. The purchase price has been allocated as follows:

| | | |
|---|---|---|
| **Assets** | | |
| Amounts receivable | $ | 350 |
| Prepaid expenses and advances | | 5 |
| Plant, machinery and equipment | | 6,094 |
| *Total assets* | **$** | **6,449** |
| **Liabilities** | | |
| Less: Trade and other payables | $ | 503 |
| Loan payable | | 2,936 |
| *Total liabilities* | **$** | **3,439** |
| **Net assets acquired** - consideration paid (7,166,888 shares issued at $0.42 per share) | **$** | **3,010** |

**5. Acquisition of Subsidiaries – (cont'd)**

*Acquisition of Cortez Gold Corp. – (cont'd)*

The Altiplano processing plant was in the final stages of completion and testing as at April 30, 2016 and, therefore, is in the pre-operational phase of production. As a result, all of the costs and any test production revenue are capitalized to Plant costs until such time as the facility is of sufficient operational status with the ability to function as management intended.

*Acquisition of Creston Moly Corp.*

On February 19, 2015, the Company entered into an agreement to acquire all of the shares of Creston Moly Corp. ("Creston Moly") from Deloitte Restructuring Inc, in its capacity as trustee in bankruptcy of Mercator Minerals Ltd. (the "Trustee"), at a purchase price of $2,013 (the "Creston Transaction").

The Supreme Court of Canada discharged Creston Moly from bankruptcy which was formerly a wholly-owned subsidiary of the Trustee. Creston Moly is a British Columbia company that owns, through its wholly-owned subsidiaries, a 100% interest in three molybdenum-copper projects (see note 10):

- The El Creston Project in Sonora, Mexico;
- The Ajax Project in British Columbia, Canada; and
- The Molybrook Project in Newfoundland, Canada.

The Creston Transaction was accounted for as an acquisition of assets. The purchase price of $2,013 has been allocated to the assets acquired based on their relative fair value on the closing date. The purchase price allocation is a result of management's best estimates and assumptions after taking into account all relevant information available.

The purchase price has been allocated entirely to the mineral properties acquired as the Company assumed no liabilities or other assets in the Creston Transaction.

*Acquisition of American Consolidated Minerals Corp.*

On November 20, 2014, the Company acquired American Consolidated Minerals Corp. ("AJC") pursuant to a plan of arrangement (the "AJC Transaction"). Before the AJC Transaction, AJC and Starcore had directors in common.

AJC shareholders received one common share of the Company for three (3) common shares of AJC held by such AJC shareholder (the "Exchange Ratio"). In addition, each holder of the outstanding stock options and common share purchase warrants of AJC received replacement options or warrants of the Company (the "Starcore Options") based upon the Exchange Ratio, and the exercise price of the replacement Starcore Options was adjusted based upon the Exchange Ratio. In total, the Company issued 1,464,095 shares at a fair value of $0.52 per share for total consideration of $761. The Company also issued 139,284 common share purchase warrants at a fair value of $Nil (note 13).

**(in thousands of Canadian dollars unless otherwise stated)**

## 5. Acquisition of Subsidiaries – (cont'd)

*Acquisition of American Consolidated Minerals Corp. – (cont'd)*

The AJC Transaction was accounted for as acquisition of assets. The purchase price of $761 has been allocated to the assets acquired based on their relative fair values on the closing date. The purchase price allocation is a result of management's best estimates and assumptions after taking into account all relevant information available. The purchase price has been allocated as follows:

| | | |
|---|---|---|
| **Assets** | | |
| Cash | $ | 4 |
| Amounts receivable | | 25 |
| Reclamation deposits | | 43 |
| Mineral properties (note 10) | | 1,029 |
| **Total assets** | | **1,101** |
| Less: Trade and other payables | | 340 |
| **Net assets acquired** | | **761** |
| **Net assets Consideration:** | | |
| Shares (1,464,095shares issued at $0.52 per share) | $ | **761** |

## 6. Short-term Investments

At April 30, 2016, the Company held a Guaranteed Investment Certificate ("GIC") denominated in CAD, USD and Mexican Pesos ("MP"). The GIC denominated in CAD and USD has a market value of $3,766 (July 31, 2015 - $2,615), earning interest income at 0.2% per annum and maturing on November 5, 2016. The Company also holds a GIC denominated in MP with a market value of $1,976 (July 31, 2015 - $Nil) earning interest at 3.25% per annum on a month to month basis.

These GICs are cashable at the Company's option and are considered to be highly liquid. The Company's short-term investments are held at two financial institutions and as such the Company is exposed to the risks of those financial institutions.

## 7. Amounts Receivable

| | | **April 30, 2016** | | July 31, 2015 |
|---|---|---|---|---|
| Taxes receivable | **$** | **1,955** | $ | 3,202 |
| Other | | **266** | | 233 |
| | **$** | **2,221** | $ | 3,435 |

**(in thousands of Canadian dollars unless otherwise stated)**

## 8. Inventory

| | | April 30, 2016 | | July 31, 2015 |
|---|---|---|---|---|
| Carrying value of inventory: | | | | |
| Doré | **$** | **1,097** | $ | 1,051 |
| Goods in transit | | **53** | | - |
| Work-in-process | | **35** | | 112 |
| Stockpile | | **13** | | 118 |
| Supplies | | **679** | | 756 |
| | **$** | **1,877** | $ | 2,037 |

## 9. Mining Interest, Plant and Equipment

| | | Mining Interest | | Plant and Equipment | | Corporate Office Equipment | | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance, July 31, 2014 | $ | 56,102 | $ | 14,893 | $ | 325 | $ | 71,320 |
| Additions | | 2,581 | | 1,109 | | 152 | | 3,842 |
| Effect of foreign exchange | | 11,162 | | 3,054 | | - | | 14,216 |
| Balance, July 31, 2015 | | 69,845 | | 19,056 | | 477 | | 89,378 |
| Additions | | 1,333 | | 2,289 | | 78 | | 3,700 |
| Acquisition of Cortez assets | | - | | 6,040 | | 54 | | 6,094 |
| Write-down of equipment | | - | | - | | (4) | | (4) |
| Effect of foreign exchange | | (1,160) | | (750) | | - | | (1,910) |
| **Balance, April 30, 2016** | **$** | **70,018** | **$** | **26,635** | **$** | **605** | **$** | **97,258** |
| **Depreciation** | | | | | | | | |
| Balance, July 31, 2014 | $ | 20,579 | $ | 5,738 | $ | 272 | $ | 26,589 |
| Depreciation for the year | | 5,482 | | 1,204 | | 2 | | 6,688 |
| Effect of foreign exchange | | 4,219 | | 1,250 | | - | | 5,469 |
| Balance, July 31, 2015 | | 30,280 | | 8,192 | | 274 | | 38,746 |
| Depreciation for the period | | 3,707 | | 1,007 | | 70 | | 4,784 |
| Write-down of equipment | | - | | - | | (1) | | (1) |
| Effect of foreign exchange | | (2,206) | | (683) | | - | | (2,889) |
| **Balance, April 30, 2016** | **$** | **31,781** | **$** | **8,516** | **$** | **343** | **$** | **40,640** |
| **Carrying amounts** | | | | | | | | |
| Balance, July 31, 2015 | $ | 39,565 | $ | 10,864 | $ | 203 | $ | 50,632 |
| **Balance, April 30, 2016** | **$** | **38,237** | **$** | **18,119** | **$** | **262** | **$** | **56,618** |

## 9. Mining Interest, Plant and Equipment – (cont'd)

The Company entered into a Binding Agreement ("Agreement") to sell the San Pedrito Property located in Queretaro, Mexico. The sale is expected to net the Company approximately USD $7 Million. The Agreement requires the buyer to deposit 50 million Mexican Pesos ("MP") (approximately USD $2.8 million), which has been received in trust and may only be released pending various confirmations, including compliance with state and municipal regulations and evidence that the property is in good standing.

The agreement is subject to a 50 million MP penalty clause in case of non-performance that will be effective if either the purchaser does not pay the owed amount when all the conditions have been met or if the Company does not wish to continue with the sale. Upon receipt of the required confirmations, the agreement provides for the subject conditions to be removed and the balance of funds to be paid immediately to the Company. The Company has not recorded the sale or deposit in these Financial Statements due to the pending conditions precedent.

The San Pedrito property was part of Starcore's original acquisition in 2007, when the Company acquired the San Martin Mine from Goldcorp for USD $26 million. The Company has allocated a cost base of approximately $3,750 to the property.

## 10. Exploration and Evaluation Assets

a) American Consolidated Minerals ("AJC") properties

Pursuant to the Acquisition of AJC (note 5), the Company has acquired the rights to three exploration properties as follows:

i) *Lone Ranch, U.S.A*

The Company has acquired the right to a 100% undivided interest, subject to a 3% net smelter royalty ("NSR"), in 73 mining claims located in Ferry County, Washington State, United States of America ("Lone Ranch") from MinQuest Inc. ("MinQuest"). Consideration to be paid for the interest is USD$360, and the Company must incur total exploration expenditures of USD$1,225 (USD$175 incurred) on the property, by the third anniversary of the "New Effective Date" as agreed by MinQuest.

The New Effective Date shall be the earlier of October 15, 2018 or the date the Company enters into a joint venture agreement over the property or the date that the Company completes a bankable feasibility study on the property.

The optionor has also granted the Company the right to purchase up to one-half of the NSR (or 1.5%) on the basis of USD$1,500 per each 1% of the royalty. If the Company does not incur the exploration expenditures as specified, the unpaid portions may be paid to the optionor to maintain the option.

ii) *Toiyabe, U.S.A*

The Company has the right to acquire a 100% undivided interest, subject to a 3% NSR, in 165 mining claims located in Lander County, Nevada, United States of America ("Toiyabe") from MinQuest. Consideration to be paid for the interest is USD$900 and the Company must incur total exploration expenditures of USD$1,025 (USD$1,025 incurred) on the property, by the fifth anniversary of the "New Effective Date" as agreed by MinQuest.

**10. Exploration and Evaluation Assets – (cont'd)**

a) AJC properties – (cont'd)

ii) *Toiyabe, U.S.A – (cont'd)*

The New Effective Date shall be the earlier of October 15, 2018 or the date the Company enters into a joint venture agreement over Toiyabe or the date that the Company completes a bankable feasibility study on the property.

The optionor has also granted the Company the right to purchase up to one-half of the NSR (or 1.5%) on the basis of USD $2,000 per each 1% of the royalty.

iii) *Sierra Rosario, Mexico*

The Company acquired a 50% interest in the 978-hectare Sierra Rosario Property, over 2 claims that are located in the state of Sinaloa, Mexico ("Sierra Rosario"). During the year ended July 31, 2015, the Company acquired the remaining 50% interest from the optionor for $25 and a 1% NSR over the entire property.

b) Creston Moly ("Creston") properties

i) *El Creston Project, Mexico*

The Company acquired a 100% interest in the nine mineral claims known as the El Creston molybdenum property located northeast of Hermosillo, State of Sonora, Mexico, which has completed a Preliminary Economic Assessment on the property based on zones of porphyry-style molybdenum ("Mo")/copper ("Cu") mineralization. The mineral concessions are subject to a 3% net profits interest.

ii) *Ajax Project, Canada*

The Company acquired a 100% interest in six mineral claims known as the Ajax molybdenum property located in B.C.

iii) *Molybrook Project, Canada*

The Company owns 100% of the 44 mineral claims of the Moly Brook molybdenum property, located on the southern coast of Newfoundland. The Moly Brook property is subject to a 2% NSR, of which 1.5% can be purchased by the Company for $1,500.

During the year, the Company reduced its claims to focus of the core project and to reduce its holding costs.

**(in thousands of Canadian dollars unless otherwise stated)**

## 10. Exploration and Evaluation Assets – (cont'd)

| | AJC Properties | Creston Properties | Total |
|---|---|---|---|
| **Acquisition costs:** | | | |
| Balance, August 1, 2014 | $ - | $ - | $ - |
| Acquisition Payments | 1,079 | 2,001 | 3,080 |
| Effect of foreign exchange | 80 | - | 80 |
| Balance, July 31, 2015 | $ 1,159 | $ 2,001 | $ 3,160 |
| Effect of foreign exchange | (76) | - | (76) |
| **Balance, April 30, 2016** | **$ 1,083** | **$ 2,001** | **$ 3,084** |
| **Exploration costs:** | | | |
| Balance, August 1, 2014 | $ - | $ - | $ - |
| Geological | 2 | 1 | 3 |
| Land taxes | 10 | - | 10 |
| Maintenance | 13 | 225 | 238 |
| Balance, July 31, 2015 | $ 25 | $ 226 | $ 251 |
| Geological | - | 115 | 115 |
| Legal fees | - | 228 | 228 |
| Maintenance | 59 | 90 | 149 |
| Effect of foreign exchange | 37 | - | 37 |
| **Balance, April 30, 2016** | **$ 121** | **$ 659** | **$ 780** |
| **Total exploration and evaluation assets** | | | |
| Balance, July 31, 2015 | $ 1,184 | $ 2,227 | $ 3,411 |
| **Balance, April 30, 2016** | **$ 1,204** | **$ 2,660** | **$ 3,864** |

## 11. Loan payable

During the year ended July 31, 2015, the Company secured a $1,305 (USD $1,000) loan with a lender. The loan is secured against certain assets of the Company and bears interest at 11% per annum, compounded monthly. The full principal plus accrued interest on the loan shall be repayable to the lender on August 31, 2017.

The Company amalgamated with Cortez (note 5) on August 5, 2015 and acquired the outstanding debt of $2,936. During the period ended April 30, 2016, the Company settled this debt by paying $650 (USD$500) and interest of $96 (USD $75) to its lenders. The Company also issued 3,993,203 Subscription Receipts (the "Receipts") to complete settlement of outstanding debt in the aggregate amount of $1,959 (US$1,500) and $282 (US$225) in interest to certain creditors. The Receipts were issued at a fair value of $0.56 per Receipt. The Receipts were subsequently converted into 3,993,203 common shares (note 13) during the period ended April 30, 2016.

**(in thousands of Canadian dollars unless otherwise stated)**

## 11. Loan payable – (cont'd)

On November 17, 2015, the Company completed a private placement of secured bonds in the aggregate principal amount of $4,500 ("the Bonds") less structuring and finder's fees, totaling $90 (the "Discount"). The Bonds bear interest of 8% per annum, payable on November 12, 2016. The Bonds are secured against all of the Company's asset that ranks pari passu with the existing debt obligations of the Company. The Discount is being charged to the Company's statement of operations and comprehensive income and added to the liability over the life of the Bonds.

| | Principal | Interest | Discount | Total |
|---|---|---|---|---|
| Financing, July 30, 2015 | $ 1,289 | $ - | $ - | $ 1,289 |
| Foreign exchange adjustment | 16 | - | - | 16 |
| Balance, July 31, 2015 | 1,305 | - | - | 1,305 |
| Acquisition of Cortez Debt | 2,609 | 378 | (51) | 2,936 |
| Repayment on debt | (2,609) | (378) | 51 | (2,936) |
| Financing, November 17, 2015 | 4,500 | - | (90) | 4,410 |
| Interest accrual | - | 282 | - | 282 |
| Unwinding of discount | - | - | 42 | 42 |
| Foreign exchange adjustment | (51) | - | - | (51) |
| **Balance, April 30, 2016** | **$ 5,754** | **$ 282** | **$ (48)** | **$ 5,988** |

| | **April 30, 2016** | July 31, 2015 |
|---|---|---|
| Current | **$ 4,619** | $ - |
| Non-Current | **1,369** | 1,305 |
| | **$ 5,988** | $ 1,305 |

The Company's financing (income) costs for the period ended April 30, 2016 and the comparative period ending on July 31, 2015 as reported on its Consolidated Statement of Operations and Comprehensive Income can be summarized as follows:

| **For the** | **Nine month ending April 30, 2016** | Year ended July 31, 2015 |
|---|---|---|
| Unwinding of discount on rehabilitation and closure accretion (note 12) | **$ 65** | $ 79 |
| Discount unwinding on debt repaid | **51** | - |
| Discount unwinding on existing debt | **42** | - |
| Interest expense on debt | **282** | - |
| Gain on forgiveness of debt | **-** | (9) |
| Interest revenue | **(53)** | (73) |
| | **$ 387** | $ (3) |

**(in thousands of Canadian dollars unless otherwise stated)**

## 12. Rehabilitation and Closure Cost Provision

The Company's asset retirement obligations consist of reclamation and closure costs for the mine. At April 30, 2016, the present value of obligations is estimated at $1,091 (July 31, 2015 - $1,162) based on expected undiscounted cash-flows at the end of the mine life of 19,195,000 MP or $1,401 (July 31, 2015 - $1,615), which is calculated annually over 5 to 10 years. Such liability was determined using a discount rate of 8% (July 31, 2015 – 8%) and an inflation rate of 3.5% (July 31, 2015 – 3.5%).

Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities, closing portals to underground mining areas and other costs.

Changes to the reclamation and closure cost balance during the year are as follows:

| | **April 30, 2016** | July 31, 2015 |
|---|---|---|
| Balance, beginning of year | **$ 1,162** | $ 1,128 |
| Accretion expense | **65** | 79 |
| Foreign exchange fluctuation | **(136)** | (45) |
| | **$ 1,091** | $ 1,162 |

## 13. Share Capital

a) Common Shares

The Company is authorized to issue an unlimited number of common shares, issuable in series.

The holders of common shares are entitled to one vote per share at meetings of the Company and to receive dividends, which may be declared from time-to-time. All shares are ranked equally with regard to the Company's residual assets.

In December 2015, the Company's Board of Directors approved a resolution consolidating the Company's share capital on the basis of one new share for up to every four outstanding shares of the Company. The Company received acceptance from regulatory authorities and commenced trading on a consolidated basis effective December 14, 2015. The 4:1 share consolidation has been presented throughout the consolidated financial statements retroactively.

During the period ended April 30, 2016, the Company issued:

- 3,993,203 Subscription Receipts (the "Receipts"), to settle the outstanding debt pursuant to the acquisition of Cortez (note 5) as at July 31, 2015 in the aggregate amount of $2,241 owed to certain creditors. The Receipts were issued at a fair value of $0.56 per Receipt. The Receipts were convertible into one share of the Company upon receipt of shareholder approval. On January 19, 2016, the shareholders approved the conversion of the Receipts into shares and as a result the Company issued 3,993,203 shares to the Receipt holders.

- 7,166,888 shares were issued pursuant to the plan of arrangement at $0.42 whereby the Company acquire all of the outstanding shares of Cortez Gold Corp.

**(in thousands of Canadian dollars unless otherwise stated)**

**13. Share Capital – (cont'd)**

a) Common Shares – (cont'd)

During the year ended July 31, 2015, the Company issued:

- 643,750 shares pursuant to the exercise of options at $0.60 per share for proceeds of $386. The fair value of the options as determined on the date of issuance, being $184, was transferred to the Company's share capital from equity reserve on exercise.

- 1,464,095 shares pursuant to the plan of arrangement at $0.52 whereby the Company acquire all of the outstanding shares of AJC (note 5).

b) Warrants

No warrants were issued during the period ended April 30, 2016.

During the year ended July 31, 2015, the Company issued 139,284 warrants pursuant to the AJC acquisition (note 5). The fair value of these warrants was minimal and as such, no amount was recorded for the issued warrants. Each warrant entitles the holder to acquire one share of the Company, at $1.20 until June 16, 2016. These warrants expired unexercised subsequent to April 30, 2016.

A summary of the Company's outstanding share purchase warrants at April 30, 2016 and July 31, 2015 and the changes during the periods then ended is presented below:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Outstanding at July 31, 2014 | - | $ - |
| Warrants issued | 139,284 | 1.20 |
| **Outstanding at July 31, 2015 & April 30, 2016** | **139,284** | **$ 1.20** |

A summary of the Company's outstanding warrants at April 30, 2016 is as follows:

| Number Outstanding | Weighted Average Price | Weighted Average Life |
|---|---|---|
| 139,284 | $1.20 | 0.13 |

c) Dividend Paid and Declared

During the previous year ended July 31, 2015, a dividend of $0.08 per share (total of $2,922) was paid on the shares of the Company on September 30, 2014 to shareholders of record.

**(in thousands of Canadian dollars unless otherwise stated)**

**13. Share Capital – (cont'd)**

d) Share-based Payments

The Company, in accordance with the policies of the TSX, was previously authorized to grant options to directors, officers, and employees to acquire up to 20% of the amount of stock outstanding. In January 2014, the Company's shareholders voted to cancel the Company's option plan and, as a result, the Company's Board of Directors may not grant further options. The Company's management and directors are reviewing alternative compensation arrangements for the Company's employees and directors.

The following is a summary of changes in options for the periods ending April 30, 2016 and July 31, 2015:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance at July 31, 2014 | 4,650,000 | $0.92 |
| Exercised | (643,750) | $0.60 |
| Forfeited/expired | (1,160,000) | $0.64 |
| **Outstanding and Exercisable at July 31, 2015 & April 30, 2016** | **2,846,250** | **$1.07** |

Subsequent to the period ended April 30, 2016, 37,500 options expired unexercised.

The following is a summary of the Company's outstanding and exercisable options at April 30, 2016:

| Number Outstanding | Weighted Average Exercise Price | Weighted Average Life |
|---|---|---|
| 37,500 | $0.60 | 0.02 |
| 100,000 | $0.80 | 0.71 |
| 485,000 | $1.00 | 0.74 |
| 812,500 | $1.48 | 0.95 |
| 200,000 | $1.00 | 2.31 |
| 68,750 | $0.80 | 2.31 |
| 50,000 | $0.92 | 2.35 |
| 50,000 | $1.00 | 2.37 |
| 1,042,500 | $0.88 | 2.71 |
| 2,846,250 | $1.07 | 1.72 |

During the period ended April 30, 2016, the Company had share-based compensation expense of $Nil (July 31, 2015 - $144). These amounts have been expensed as follows:

| **For the** | **Nine months ending April 30, 2016** | Year ended July 31, 2015 |
|---|---|---|
| Cost of Sales – Mined ore | **$** - | $ 18 |
| Management fees and salaries | - | 120 |
| Office and administration | - | 6 |
| | **$** - | $ 144 |

**(in thousands of Canadian dollars unless otherwise stated)**

## 14. Financial Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Cash and short-term investments are carried at their fair value. There are no material differences between the carrying values and the fair values of any other financial assets or liabilities.

In the normal course of business, the Company's assets, liabilities and future transactions are impacted by various market risks, including currency risks associated with inventory, revenues, cost of sales, capital expenditures, interest earned on cash and the interest rate risk associated with floating rate debt.

a) Currency Risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. At April 30, 2016, the Company had the following financial assets and liabilities denominated in CAD and denominated in MP:

| In '000 of | CAD Dollars | | MP | |
|---|---|---|---|---|
| Cash | $ | 451 | MP | 35,112 |
| Long term liabilities | $ | 2,163 | | - |
| Other working capital amounts - net | $ | (4,619) | MP | (105,118) |

At April 30, 2016, US dollar amounts were converted at a rate of $1.2549 Canadian dollars to $1 US dollar and MP were converted at a rate of MP17.19 to $1 US Dollar. A 10% increase or decrease in the US dollar exchange may increase or decrease annual earnings from mining operations by approximately $52. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately $18.

b) Interest Rate Risk

The Company's cash earns interest at variable interest rates. While fluctuations in market rates do not have a material impact on the fair value of the Company's cash flows, future cash flows may be affected by interest rate fluctuations. The Company is not significantly exposed to interest rate fluctuations and interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
(ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

**(in thousands of Canadian dollars unless otherwise stated)**

**14. Financial Instruments – (cont'd)**

c) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash and short-term investments, the balance of which at April 30, 2016 is $4,248 (July 31, 2015 - $3,370) and $5,742 (July 31, 2015 - $2,615), respectively. Cash of $566 (July 31, 2015 - $1,371) and short-term investments of $1,976 (July 31, 2015 - $Nil) are held at a Mexican financial institution, cash of $19 (July 31, 2015 – $Nil) are held at a US financial institution and the remainder of $3,663 (July 31, 2015 - $1,999) and the short-term investment of $3,766 (July 31, 2015 - $2,615) are held at a chartered Canadian financial institution; the Company is exposed to the risks of those financial institutions. There are no trade receivables owed and the taxes receivable are comprised of Mexican VAT taxes receivable of $1,910 and GST receivable of $45, which are subject to review by the respective tax authority.

d) Liquidity Risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company accomplishes this by achieving profitable operations and maintaining sufficient cash reserves. As at April 30, 2016, the Company was holding cash of $4,248 (July 31, 2015 - $3,370) and short-term investments of $5,742 (July 31, 2015 - $2,615).

| Obligations due within twelve months of April 30, | 2016 | 2017 | 2018 | 2019 | 2020 and beyond |
|---|---|---|---|---|---|
| Trade and other payables | $ 3,091 | $ - | $ - | $ - | $ - |
| Current portion of loan payable | 4,619 | - | - | - | - |
| Non-current portion of loan payable | - | 1,369 | - | - | - |
| Reclamation and closure obligations | $ - | $ - | $ - | $ - | $ 1,401 |

The Company's trade and other payables are due in the short term. Long-term obligations include the Company's reclamation and closure cost obligations, other long-term liabilities and deferred income taxes. Management believes that profits generated from the mine will be sufficient to meet its financial obligations.

e) Commodity Risk

Mineral prices and marketability fluctuate and any decline in mineral prices may have a negative effect on the Company. Mineral prices, particularly gold and silver prices, have fluctuated widely in recent years. The marketability and price of minerals which may be produced and sold by the Company will be affected by numerous factors beyond the control of the Company. These other factors include delivery uncertainties related to the proximity of its resources to processing facilities and extensive government regulations related to price, taxes, royalties, allowable production land tenure, the import and export of minerals and many other aspects of the mining business. Declines in mineral prices may have a negative effect on the Company. A 10% decrease or increase in metal prices may result in a decrease or increase of USD $2,033 in revenue and net income.

**(in thousands of Canadian dollars unless otherwise stated)**

## 15. Commitments and related party transactions

Except as disclosed elsewhere in these consolidated financial statements, the Company has the following commitments outstanding at April 30, 2016:

a) As at April 30, 2016, the Company has shared lease commitments for office space of approximately $144 per year, expiring at various dates up to April 2020, which includes minimum lease payments and estimated taxes, but excluded operating costs, taxes and utilities, to expiry.

b) As at April 30, 2016, the Company has a land lease agreement commitment with respect to the land at the mine site, for $132 per year until December 2017. The Company also has ongoing commitments on the exploration and evaluation assets of approximately $220 per year.

c) As at April 30, 2016, the Company has management contracts to officers and directors totaling $840 per year, payable monthly, expiring in January 2017.

The Company paid the following amounts to key management and directors in the period:

| For the | Nine months ending April 30, 2016 | Year ending July 31, 2015 |
|---|---|---|
| Management fees | **$ 624** | $ 840 |
| Legal fees | **256** | 95 |
| Directors fees | **70** | 60 |
| Share-based payments | **-** | 107 |
| **Total** | **$ 950** | $ 1,102 |

## 16. Capital Disclosures

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the consolidated statements of changes in equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements and there were no changes to the capital management in the period ended April 30, 2016.

## 17. Segmented Information

The Company operates in three reportable geographical and one operating segment. Selected financial information by geographical segment is as follows:

| | Mexico | Canada | USA | April 30, 2016 Total |
|---|---|---|---|---|
| Revenue | $ 20,326 | $ - | $ - | **$ 20,326** |
| Earnings (loss) for the period | 3,653 | (3,429) | (29) | **195** |
| Mining interest, plant and equipment | 56,364 | 254 | - | **56,618** |
| Non-Current assets | 61,323 | 3,045 | 260 | **64,628** |
| Total assets | 71,876 | 5,180 | 1,851 | **78,907** |

**(in thousands of Canadian dollars unless otherwise stated)**

## 17. Segmented Information - (cont'd)

| | Mexico | Canada | USA | July 31, 2015 Total |
|---|---|---|---|---|
| Revenue | $ 28,405 | $ - | $ - | $ 28,405 |
| Earnings (loss) for the year | 2,563 | (2,379) | 26 | 210 |
| Mining interest, plant and equipment | 50,278 | 273 | 81 | 50,632 |
| Non-current assets | 54,427 | 2,545 | 205 | 57,177 |
| Total assets | 63,590 | 4,786 | 821 | 69,197 |

During the periods ended April 30, 2016 and July 31, 2015, the Company earned all of its revenues from one customer. As at April 30, 2016, the Company does not consider itself to be economically dependent on this customer as transactions with this party can be easily replaced by transactions with other parties on similar terms and conditions. The balance owing from this customer on April 30, 2016 was $Nil (July 31, 2015 - $Nil).

## 18. Earnings per Share

The Company calculates the basic and diluted income (loss) per share using the weighted average number of shares outstanding during each year and the diluted income (loss) per share assumes that the outstanding vested stock options and share purchase warrants had been exercised at the beginning of the year.

The denominator for the calculation of income (loss) per share, being the weighted average number of shares, is calculated as follows:

| **For the** | **Nine months ended April 30, 2016** | Year ended July 31, 2015 |
|---|---|---|
| Issued common share, beginning of year | **37,986,761** | 35,878,866 |
| Weighted average issuances | **8,470,313** | 1,567,496 |
| Basic weighted average common shares | **46,457,074** | 37,446,362 |
| Effect of dilutive warrants and options | **-** | - |
| Diluted weighted average common shares | **46,457,074** | 37,446,362 |

Vested share purchase options totalling 2,846,250 and share purchase warrants totalling 139,284 at April 30, 2016 were not included in the computation of diluted earnings per share as the effect was anti-dilutive.

**(in thousands of Canadian dollars unless otherwise stated)**

## 19. Income Taxes

Current and deferred income tax expenses differ from the amount that would result from applying the Canadian statutory income tax rates to the Company's earnings before income taxes. This difference is reconciled as follows:

| For the | | Nine months ended April 30, 2016 | | Year ended July 31, 2015 |
|---|---|---|---|---|
| (Loss) Earnings before income taxes | **$** | **(2,444)** | $ | (1,710) |
| Canadian statutory income tax rate | | **26%** | | 26% |
| Income tax expense (recovery) at statutory rate | | **(635)** | | (445) |
| Difference from higher statutory tax rates on earnings of foreign subsidiaries | | **(310)** | | (2,253) |
| Permanent Difference | | **(1,773)** | | (658) |
| Effect of Mexican mining royalty tax (SMD) on deferred income tax liabilities | | **(361)** | | - |
| Mexican mining royalty tax (SMD) | | **-** | | 114 |
| Recovery of Mexican flat tax (IETU) | | **-** | | - |
| Recognition of previously unrecognized non-capital loss carry forward and other deductible tax benefits | | **440** | | 1,322 |
| Unrecognized benefit of temporary differences and others | | **-** | | - |
| Income tax (recovery) expense | **$** | **(2,639)** | $ | (1,920) |

The Company's statutory rate is 26% for the period ended April 30, 2016 (July 31, 2015 - 26%). The significant components of the Company's deferred income tax assets and liabilities are as follows:

| | | April 30, 2016 | | July 31, 2015 |
|---|---|---|---|---|
| Deferred income tax assets (liabilities): | | | | |
| Mining interest, plant and equipment | **$** | **(7,288)** | $ | (13,096) |
| Payments to defer | | **(527)** | | (601) |
| Insurance | | **(4)** | | (3) |
| Reclamation and closure costs provision | | **960** | | 883 |
| Expenses reserve | | **131** | | 80 |
| Pension-fund reserve | | **76** | | 63 |
| Deferred mining tax | | **(2,004)** | | - |
| Non-capital losses and other deductible tax benefits | | **1,680** | | 2,969 |
| Other | | **93** | | - |
| Deferred income tax liabilities, net | **$** | **(6,883)** | $ | (9,705) |

**(in thousands of Canadian dollars unless otherwise stated)**

**19. Income Taxes – (cont'd)**

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributable to the following:

| | | **April 30, 2016** | | July 31, 2015 |
|---|---|---|---|---|
| Net capital losses | **$** | **-** | | 369 |
| Non-capital losses | | **24,333** | | 1,625 |
| Resource pools | | **3,674** | | 640 |
| Property and equipment | | **159** | | - |
| Canadian eligible capital | | **1,426** | | - |
| | **$** | **29,592** | $ | 2,634 |

At April 30, 2016, the Company has tax losses of approximately $11,894 (July 31, 2015 - $8,767) in Canada and $12,439 (July 31, 2015 - $626) in Mexico available for carry-forward to reduce future years' taxable income, expiring between 2026 and 2036 in Canada. In addition the Company has tax resource pools and other deductible amounts available of $5,259 (July 31, 2015 - $8,953), amortizable at various rates from 100% to 10% without expiry. Deferred income tax assets have been recognized only to the extent the Company believes it is probable they will be utilized in the future.

In accordance with Mexican tax law, Bernal is subject to income tax. Income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through an inflationary component.

**Mexico Tax Reform**

During December 2013, the 2014 Tax Reform (the "Tax Reform") was published in Mexico's official gazette with changes taking effect January 1, 2014. The Tax Reform included the implementation of a 7.5% Special Mining Duty ("SMD") and a 0.5% Extraordinary Mining Duty ("EMD").

The Company has taken the position that SMD is an income tax under IAS 12 *Income tax*, as it is calculated based on a form of earnings before income tax less certain specified costs. The EMD is a calculation based on gross revenue and is therefore not considered an income tax. Both the SMD and EMD will be deductible for income tax purposes.

In the year ended July 31, 2014, the effect of this change in the rate at which taxes are determined for SMD resulted in a further one time charge to the provision for deferred taxes, with a corresponding one-time increase to net deferred tax liabilities of $2,362. During the current year end, the tax liability was decreased by $358 to $2,004.

Management is currently disputing the SMD, in a joint action lawsuit with other Mexican mining companies, with the applicable Mexican government authority. Management believes that the SMD is unconstitutional and should be overturned. In accordance with IFRS reporting standards, however, the estimated effect of the SMD has been accrued to the current and deferred income tax provisions as stated above. Should the Company be successful in overturning the SMD, in whole or in part, the accrued tax liabilities stated above will be reversed to recovery of income taxes in the applicable period.