SILVER BULL RESOURCES, INC.
Form 10-Q
June 07, 2012

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

FORM 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED April 30, 2012.

£ 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	91-1766677
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

925 West Georgia Street, Suite 1908
Vancouver, B.C. V6C 3L2
(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 R No o

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 R No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company:

Large accelerated filer o	Accelerated filer R	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No R

As of June 7, 2012, there were 136,160,157 shares of the Registrant's $.01 par value Common Stock ("Common Stock"), the Registrant's only outstanding class of voting securities.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SILVER BULL RESOURCES, INC.
(AN EXPLORATION STAGE COMPANY)
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

	April 30, 2012 (Unaudited)	October 31, 2011 **
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$6,558,718	$4,239,899
Restricted cash (Note 5)	44,227	77,068
Value-added tax receivable, net of allowance for uncollectible taxes of $528,888 and $nil, respectively (Note 6)	2,112,951	—
Other receivable	165,419	80,789
Prepaid expenses and deposits	338,115	239,286
Prepaid income taxes	1,778	10,933
Total Current Assets	9,221,208	4,647,975
PROPERTY CONCESSIONS		
Sierra Mojada, Mexico (Note 7)	5,596,669	4,846,687
Gabon, Africa (Notes 7 and 9)	3,913,069	4,500,148
	9,509,738	9,346,835
EQUIPMENT		
Office and mining equipment, net of accumulated depreciation of $880,653 and $973,457, respectively (Note 8)	730,493	785,486
OTHER ASSETS		
Value-added tax receivable, net of allowance for uncollectible taxes of $nil and $1,380,818, respectively (Note 6)	476,320	1,826,664
Goodwill (Note 10)	18,495,031	18,495,031
Other assets	56,619	112,170
	19,027,970	20,433,865
TOTAL ASSETS	$38,489,409	$35,214,161
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$899,547	$798,679
Accrued liabilities and expenses	360,941	874,605
Income tax payable	20,119	7,842
Payable to joint venture partner (Note 9)	523,438	541,913
Total Current Liabilities	1,804,045	2,223,039
COMMITMENTS AND CONTINGENCIES (Notes 12 and 17)		
STOCKHOLDERS’ EQUITY (Notes 12, 13, 14 and 15)		
Common stock, $0.01 par value; 300,000,000 shares authorized,	1,361,601	1,151,101

136,160,157 and 115,110,157 shares issued and outstanding, respectively		
Additional paid-in capital	115,839,441	105,201,435
Deficit accumulated during exploration stage	(80,549,477)	(73,559,865)
Other comprehensive income	33,799	198,451
Total Stockholders' Equity	36,685,364	32,991,122
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$38,489,409	$35,214,161

** Derived from the audited financial statements for the year ended October 31, 2011.

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

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

	Three Months Ended April 30,		Six Months Ended April 30,		Period from November 8, 1993 (Inception) to April 30,
	2012	2011	2012	2011	2012
REVENUES	$—	$ —	$—	$ —	$—
EXPLORATION AND PROPERTY HOLDING COSTS					
Exploration and property holding costs	3,406,383	2,025,646	5,854,192	3,066,812	41,761,382
Depreciation and asset write-off (Note 7)	317,685	58,141	422,013	117,143	1,844,014
TOTAL EXPLORATION AND PROPERY HOLDING COSTS	3,724,068	2,083,787	6,276,205	3,183,955	43,605,396
GENERAL AND ADMINISTRATIVE EXPENSES					
Personnel	198,055	699,497	472,968	970,235	16,259,431
Office and administrative (Note 11)	262,855	203,810	451,712	401,045	4,458,423
Professional services	161,042	178,697	336,573	386,208	8,287,383
Directors' fees	158,058	132,602	317,333	263,890	4,755,434
(Recovery of) provision for uncollectible value-added taxes	(892,704)	—	(808,883)	—	600,702
Depreciation	1,133	3,245	1,448	6,674	262,228
TOTAL GENERAL AND ADMINISTRATIVE (RECOVERY) EXPENSES	(111,561)	1,217,851	771,151	2,028,052	34,623,601
LOSS FROM OPERATIONS	(3,612,507)	(3,301,638)	(7,047,356)	(5,212,007)	(78,228,997)
OTHER INCOME (EXPENSES)					
Interest and investment income	62,528	6,051	65,907	29,491	1,000,805
Foreign currency transaction gain (loss)	22,609	1,690,077	(165,351)	1,974,645	(3,002,583)
Miscellaneous income	202,932	47,932	233,836	43,131	13,118
	288,069	1,744,060	134,392	2,047,267	(1,988,660)

TOTAL OTHER INCOME (EXPENSE)					
LOSS BEFORE INCOME TAXES	(3,324,438)	(1,557,578)	(6,912,964)	(3,164,740)	(80,217,657)
INCOME TAX EXPENSE	71,686	19,499	76,648	23,387	205,730
NET LOSS	$ (3,396,124)	$ (1,577,077)	$ (6,989,612)	$ (3,188,127)	$ (80,423,387)
OTHER COMPREHENSIVE (LOSS) INCOME – Foreign currency translation adjustments	(5,448)	248,413	(164,652)	60,309	33,799
COMPREHENSIVE LOSS	$ (3,401,572)	$ (1,328,664)	$ (7,154,264)	$ (3,127,818)	$ (80,389,588)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.03)	
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	136,160,157	106,419,342	131,300,843	106,197,062	

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

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

	Six Months Ended April 30, 2012	Six Months Ended April 30, 2011	Period from November 8, 1993 (Inception) to April 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(6,989,612)	$ (3,188,127)	$ (80,423,387)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and asset write-off	426,823	76,093	2,077,961
(Recovery) provision for uncollectible value-added taxes	(808,883)	—	593,727
Noncash expenses	—	—	126,864
Foreign currency transaction loss (gain)	145,332	(1,898,829)	2,973,608
Common stock issued for services	—	—	1,563,574
Common stock issued for compensation and directors' fees	—	—	1,753,222
Stock options issued for compensation	630,732	661,177	9,775,361
Stock options and warrants issued for services, financing fees and directors' fees	—	—	4,769,840
(Increase) decrease in, net of merger transaction:			
Value-added tax receivable	15,246	(536,452)	(3,325,851)
Restricted cash	27,815	5,229	(48,024)
Other receivables	(84,587)	9,562	(153,653)
Prepaid income taxes and expenses and deposits	(89,338)	10,823	(335,899)
Increase (decrease) in, net of merger transaction:			
Accounts payable	101,228	188,078	665,821
Income tax payable	12,004	5,665	23,256
Accrued liabilities and expenses	(502,899)	359,091	419,224
Accrued severance costs	—	(184,000)	—
Other liabilities	—	—	7,649
Net cash used by operating activities	(7,116,139)	(4,491,690)	(59,536,707)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	—	(40,555)	(21,609,447)
Proceeds from sale of investments	—	—	21,609,447
Cash acquired in merger with Dome Ventures	—	—	2,618,548
Equipment purchases	(14,514)	(11,546)	(3,032,196)
Proceeds from sale of equipment	—	206,398	451,565
Proceeds from mining concession option payment (Note 9)	—	—	200,000
Acquisition of property concessions	(818,266)	(458,593)	(6,621,742)
Net cash used by investing activities	(832,780)	(304,296)	(6,383,825)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net of offering costs	10,217,774	—	64,908,705
Proceeds from sales of options and warrants	—	—	949,890
Proceeds from exercise of options	—	152,193	188,913

Proceeds from exercise of warrants	—	673,343	6,350,286
Deferred offering costs	53,860	(68,375)	(40,689)
Payable to joint venture partner	16,265	(442,276)	495,859
Proceeds from shareholder loans	—	—	30,000
Payment of note payable	—	—	(15,783)
Net cash provided by financing activities	10,287,899	314,885	72,867,181
Effect of exchange rates on cash and cash equivalents	(20,161)	(18,300)	(387,931)
Net increase (decrease) in cash and cash equivalents	2,318,819	(4,499,401)	6,558,718
Cash and cash equivalents beginning of period	4,239,899	10,570,598	—
Cash and cash equivalents end of period	$6,558,718	$ 6,071,197	$ 6,558,718

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

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

	Six Months Ended April 30, 2012	2011	Period from November 8, 1993 (Inception) to April 30, 2012
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	$45,855	$—	$186,419
Interest paid	$—	$—	$286,771
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued in merger with Dome	$—	$—	$24,840,886
Warrants issued in merger with Dome	$—	$—	$1,895,252
Common stock issued for equipment	$—	$—	$25,000
Common stock options issued for financing fees	$—	$—	$276,000
Common stock options issued for non-cash options	$—	$37	$59,947

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

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NOTE 1 – ORGANIZATION, DESCRIPTION OF BUSINESS

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, at a special directors meeting, the Company's name was changed to Metalline Mining Company ("Metalline"). On April 20, 2011, at an annual meeting of shareholders, the Company's name change to Silver Bull Resources, Inc. was approved and became effective April 21, 2011. The Company's fiscal year-end is October 31. 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 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") and Contratistas de Sierra Mojada S.A. de C.V. ("Contratistas") and through Minera'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's subsidiaries include its wholly-owned subsidiaries Dome Asia Inc., and Dome International Global Inc., which are incorporated in the British Virgin Islands. Dome International Global Inc.'s subsidiaries include its wholly-owned subsidiaries incorporated in Gabon, Dome Ventures SARL Gabon, and African Resources SARL Gabon, as well as its 99.99%-owned subsidiary, Dome Minerals Nigeria Limited incorporated in Nigeria. Dome Venture SARL Gabon has a wholly-owned subsidiary Gabon Resources SARL. The Company conducts its exploration activities in Gabon, Africa through Dome Ventures SARL Gabon and African Resources SARL Gabon.

The Company's efforts have been concentrated in expenditures related to exploration properties, principally in the Sierra Mojada Property located in Coahuila, Mexico. The Company has not determined whether the 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, the ability of the Company to obtain financing or make other arrangements for development, and upon future profitable production. The ultimate realization of the Company's investment in exploration properties cannot be determined at this time. Accordingly, no provision for any asset impairment that may result, in the event the Company is not successful in developing or selling these properties, has been made in the accompanying consolidated financial statements except as disclosed in Note 7.

NOTE 2 – BASIS OF PRESENTATION

The Company's unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules of the 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. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended October 31, 2011.

The unaudited interim 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, these unaudited interim 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 consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company's financial position and results of operations.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are defined in the Company's Form 10-K for the year ended October 31, 2011 filed on January 11, 2012 except as follows.

Foreign Currency

During the year ended October 31, 2011 assets and liabilities of the Company's foreign operations were translated into U.S. dollars at the period-end exchange rate, and revenue and expenses were translated at the average exchange rate during the period. Exchange differences arising on translation were disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions were reflected in the results of operations. Intercompany transactions and balances with the Company's Mexican and Gabonese subsidiaries were considered to be short-term in nature except for $13.4 million of intercompany loans which the Company agreed to convert to future capital increases. All foreign currency transaction gains and losses on intercompany loans which were not considered to be short-term in nature were included in the consolidated statement of operations.

During the six months ended April 30, 2012 the Company's Gabonese foreign operations were translated into U.S. dollars consistent with the year-ended October 31, 2011.

As at November 1, 2011, the Company determined that the functional currency of the Company's Mexican subsidiaries changed from the Mexican Peso ("$MXN") to the U.S. dollar. During the six months ended April 30, 2012 the Company's Mexican foreign operations monetary assets and liabilities were translated into U.S. dollars at the period-end exchange rate and non-monetary assets and liabilities were translated using the historical exchange rate. The Company's Mexican foreign operations revenue and expenses were translated at the average exchange rate during the period except for depreciation of office and mining equipment and impairment of property concessions which are translated using the historical exchange rate. Foreign currency translation gains and losses of the Company's foreign Mexican operations occurring after November 1, 2011 are included in the consolidated statement of operations.

Recent Accounting Pronouncements Adopted in the Six Months Ended April 30, 2012

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06 which included additional disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements disclosures effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08 "Intangibles – Goodwill and Other." This new guidance on testing goodwill provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is not less than its carrying amount, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with prospective application required. The adoption of this guidance is not expected to have a material effect on the Company`s financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income." This update amended the presentation options in Accounting Standards Codification ("ASC") 220, "Comprehensive Income," to provide an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with retrospective application required. The adoption of this guidance is not expected to have a material effect on the Company`s financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This update amended explanations of how to measure fair value to result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. ASU 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with prospective application required. The adoption of this guidance is not expected to have a material effect on the Company`s financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the United States Securities and Exchange Commission did not or are not believed to have a material impact on the Company's present or future consolidated financial statements.

NOTE 4 – LOSS PER SHARE

The Company has stock options and warrants in the aggregate of 7,558,196 shares and 7,832,806 shares outstanding at April 30, 2012 and 2011. They were not included in the calculation of loss per share because they would have been considered anti-dilutive.

NOTE 5 – RESTRICTED CASH

At April 30, 2012 and October 31, 2011, the Company has $44,227 and $77,068 respectively of restricted cash which is classified as a current asset. The restricted cash represents cash contributed by AngloGold Ashanti Limited ("AngloGold") for use exclusively on exploration costs related to the joint venture agreements with AngloGold (Note 9).

NOTE 6 – VALUE-ADDED TAX RECEIVABLE

Value-added tax ("IVA") receivable relates to IVA paid in Mexico and Gabon. As a result of IVA collections in Mexico during the six months ended April 30, 2012, the Company estimates net IVA of $2,112,951 will be received within twelve months of the balance sheet date. The remaining net IVA of $476,320 has been classified as long-term.

During 2008, the Company filed IVA tax returns with the Mexican authorities to recover IVA taxes paid by its Mexican subsidiaries from 2005 through 2008. The Mexican authorities reviewed the IVA tax returns filed and requested the Company provide copies of supporting documentation for amounts filed. During 2008 and 2009, the Company worked extensively with IVA tax consultants and Mexican authorities to provide the requested documentation and answer questions related to these tax returns, but was unable to recover the IVA tax amounts.

As the result of these difficulties, the Company applied for authorization before the tax authorities to transfer the tax office jurisdiction to Mexico City beginning in the 2012 fiscal year. During December 2011 the Company received this authorization and the Company filed IVA tax returns in Mexico City for calendar years 2007 to 2011 during the six months ended April 30, 2012.

As of April 30, 2012, the Company has received $951,556 inclusive of interest related to the tax returns filed for calendar years 2007 to 2011. Management evaluated the IVA receivable and decreased the allowance for uncollectible taxes to $MXN 6.9 million or $528,888. The allowance for uncollectible taxes was estimated by management based upon a number of factors including the length of time the returns have been outstanding, general economic conditions in Mexico and estimated net recovery after commissions. During the six months ended April 30, 2012, a recovery of uncollectible IVA of $MXN 10.5 million or $808,883 has been recorded.

A summary of the changes in the allowance for uncollectible taxes for the six months ended April 30, 2012 is as follows:

Allowance for uncollectible taxes – October 31, 2011	$1,380,818
Recovery of uncollectible IVA Taxes	(808,883)
Foreign currency translation adjustment	(43,047)
Allowance for uncollectible taxes – April 30, 2012	$528,888

NOTE 7 – PROPERTY CONCESSIONS

The following is a summary of the Company's property concessions in Sierra Mojada, Mexico and Gabon, Africa as at April 30, 2012 and October 31, 2011, respectively:

	Sierra Mojada, Mexico	Gabon, Africa
Property Concessions – October 31, 2010	$ 4,318,292	$ 4,396,915
Acquisitions	797,960	—
Joint venture agreement payment received (Note 9)	—	(100,000)
Foreign currency translation adjustment	(269,565)	203,233
Property Concessions – October 31, 2011	$ 4,846,687	$ 4,500,148
Acquisitions	818,266	—
Impairment	(68,284)	(286,710)
Foreign currency translation adjustments	—	(300,369)
Property Concessions – April 30, 2012	$ 5,596,669	$ 3,913,069

During the six months ended April 30, 2012, the Company decided not to pursue further work on the Fortaleza and Ampl. A. Fortaleza concessions. As a result the Company has written off the capitalized property concession balance related to these concessions of $68,284.

During the six months ended April 30, 2012, the Company and Anglo Gold decided not to pursue further work on Mevang concession. As a result, the Company has written off the capitalized property concession balance related to this concession of $286,710.

NOTE 8 – OFFICE AND MINING EQUIPMENT

The following is a summary of the Company's office and mining equipment at April 30, 2012 and October 31, 2011, respectively:

	April 30, 2012	October 31, 2011
Mining equipment	$ 949,132	$ 1,051,312
Vehicles	197,737	229,912
Buildings and structures	186,041	186,041
Computer equipment and software	189,558	203,000

Well equipment		39,637		39,637
Office equipment		49,041		49,041
		1,611,146		1,758,943
Less: Accumulated depreciation		(880,653)		(973,457)
	$	730,493	$	785,486

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NOTE 9 – JOINT VENTURE AGREEMENTS

In October 2009, Dome and AngloGold entered into two joint venture agreements; the Ogooue Joint Venture Agreement and the Ndjole and Mevang Joint Venture Agreement.

Ogooue Joint Venture Agreement

AngloGold acquired a reconnaissance license over an area comprising 8,295 square kilometers in Gabon, Africa. This license was acquired by AngloGold for its gold potential. The joint venture is an 80/20 joint venture in favor of AngloGold. AngloGold made a firm commitment to spend $100,000 and solely fund the first $3 million of exploration expenditures, after which the parties will contribute on an 80/20 basis. Joint venture dilution provisions apply whereby if Dome is diluted in the future to a joint venture interest of 5% or less due to lack of contribution to exploration budgets, its interest will be converted to a 2% Net Smelter Return which can be purchased at an appraised value 14 months after commencement of commercial production. Should AngloGold elect not to spend the aforesaid $3 million, the lease shall be assigned to Dome.

Ndjole and Mevang Joint Venture Agreement

Dome is the owner of the Ndjole and Mevang exploration licenses, each comprised of 2,000 square kilometers. Under the terms of the joint venture, AngloGold earned a 20% interest by paying Dome $400,000 upon signing of the joint venture agreement in October 2009. AngloGold can earn an additional 40% interest by paying Dome $100,000 per year from 2010 through 2012 and by incurring exploration expenditures in the amount of $3.7 million from 2010 through 2012 at the rate of $1 million in the first year, $1.2 million in the second year and $1.5 million in the third year. As of April 30, 2012, AngloGold has incurred exploration expenditures of $5,666,000 and paid Dome two payments of $100,000 each.

Once it has earned a 60% interest, AngloGold can earn an additional 10% interest (70% total) by spending $5 million on exploration expenditures within two years of earning into a 60% interest as set out above. When the parties have a 70/30 joint venture, and if Dome elects not to contribute to work programs and budgets, AngloGold may elect to earn an additional 15% interest (85% total) by carrying the project to a completed pre-feasibility study. Should AngloGold fail to perform as set out above, a 100% interest in the licenses shall revert to Dome and the joint venture will cease. AngloGold shall be entitled to withdraw from the joint venture after it has spent $1 million on exploration expenditures.

Joint venture dilution provisions apply whereby if Dome is diluted in the future to a joint venture interest of 5% or less due to lack of contribution to exploration budgets, its interests will be converted to a 2% Net Smelter Return which can be purchased at appraised value 14 months after commencement of commercial production.

Pursuant to the terms of the joint venture agreement, exploration costs are currently being funded 100% by AngloGold through the Company's wholly owned subsidiary, Dome Gabon SARL. AngloGold will typically fund in advance the exploration costs for the upcoming period. Any funds received in excess of exploration costs are reflected as a payable to joint venture partner on the Company's consolidated balance sheet. As of April 30, 2012, the payable to AngloGold was $523,438.

NOTE 10 – 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. As at April 30, 2012, the Company performed the annual goodwill impairment test. The first step of the impairment test resulted in the fair value of the reporting unit exceeding the carrying value of the net assets. Therefore the Company did not proceed to step two of the impairment test.

The following is a summary of the Company's goodwill balance as at April 30, 2012 and October 31, 2011, respectively:

Goodwill – October 31, 2010	$	19,738,862
Foreign currency translation adjustment		(1,243,831)
Goodwill – October 31, 2011	$	18,495,031
Goodwill – April 30, 2012	$	18,495,031

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NOTE 11 - RELATED PARTY TRANSACTIONS

The Company had an arrangement with Rand Edgar Investment Corp., a company owned by Brian Edgar, the Company's Chairman, whereby the Company paid approximately $10,000 per month for general corporate development, rent and administrative services for an office in Vancouver, British Columbia. This arrangement ended on March 31, 2012. During the three months ended April 30, 2012 and April 30, 2011, the Company paid $20,000 and $30,167 respectively, and during the six months ended April 30, 2012 and April 30, 2011, the Company paid $50,000 and $61,507 respectively, to Rand Edgar Investment Corp. for general corporate development, rent and administrative services which is included in the office and administrative line of the consolidated statement of operations and comprehensive loss.

NOTE 12 – 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 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 Plan, one Right is attached to each share of Company common stock issued since that date. Each Right is attached to the underlying common stock and will remain with the common stock if the stock is sold or transferred. As of April 30, 2012, there are 136,160,157 shares outstanding with Rights attached.

In certain circumstances, in the event that any person acquires beneficial ownership of 20% or more of the outstanding shares of the Company's common stock, each holder of a Right, other than the acquirer, would be entitled to receive, upon payment of the purchase price, which is 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. The Rights will expire on June 11, 2017.

NOTE 13 - COMMON STOCK

On December 12, 2011, the Company closed a registered direct offering for the sale or 20,755,000 shares of common stock at a price of $0.50 per share for gross proceeds of $10,377,500. The Company paid a 6% finder's fee totaling $94,500 to a Canadian finder with respect to certain non-U.S. purchasers who were introduced by them. The Company incurred other offering costs of $209,744 related to this offering.

On December 13, 2011, the Company closed a registered direct offering for the sale or 295,000 shares of common stock at a price of $0.50 per share for gross proceeds of $147,500. The Company incurred offering costs of $2,982 related to this offering.

During the comparable six months ended April 30, 2011, the Company issued 1,333,353 shares of common stock upon the exercise of warrants at an average cash consideration of $0.50 per share. Options to acquire 261,355 shares of common stock were also exercised at an average exercise price of $0.58. In addition, options to acquire 9,999 shares of common stock were exercised by way of a cashless exercise whereby the recipients elected to receive 3,691 shares without payment of the exercised price and the remaining options for 6,308 shares were cancelled.

NOTE 14 - STOCK OPTIONS

The Company has adopted two active stock option plans. Under the 2006 Stock Option Plan (the "2006 Plan") the Company may grant non-statutory and incentive options to employees, directors and consultants for up to a total of 5,000,000 shares of common stock. Under the 2010 Stock Option and Stock Bonus Plan (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.

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 2 to 3 years and have a contractual term of 5 to 10 years.

A summary of the range of assumptions used to value stock options granted for the six months ended April 30, 2012 and 2011 are as follows:

Options	Six months Ended April 30, 2012	2011
Expected volatility	72% - 104%	103% - 116%
Risk-free interest rate	0.29% - 0.63%	0.88% -1.53%
Dividend yield	—	—
Expected term (in years)	2.50 - 3.50	2.50 – 3.50

During the six months ended April 30, 2012, the Company granted options to acquire 2,560,000 shares of common stock with a weighted-average grant-date fair value of $0.31. No options were exercised during the six months ended April 30, 2012.

During the six months ended April 30, 2011, options to acquire 265,046 shares of common stock were exercised at an average exercise price of $0.57 per share. The options had an intrinsic value of $141,826 at the time of exercise. Also during the six months ended April 30, 2011, the Company granted options to acquire 1,255,000 shares of common stock with a weighted-average grant-date fair value of $0.73.

The following is a summary of stock option activity for the six months ended April 30, 2012:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 1, 2011	4,551,908	$1.06		
Granted	2,560,000	0.56		
Forfeited or cancelled	(776,668)	2.04		
Expired	—	—		
Outstanding at April 30, 2012	6,335,240	$0.74	3.86	$—
Vested or Expected to Vest at April 30, 2012	6,335,240	$0.74	3.86	