

SILVER BULL RESOURCES, INC.  
Form 10-Q  
September 06, 2011

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

FORM 10-Q

(Mark One)

R QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED July 31, 2011.

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD OF \_\_\_\_\_ TO \_\_\_\_\_.

Commission File Number: 001-33125

SILVER BULL RESOURCES, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
State or other jurisdiction of  
incorporation or organization

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

885 West Georgia Street, Suite 2200  
Vancouver, B.C. V6C 3E8  
(Address of principal executive offices, including zip code)

Registrant's telephone number: 604-687-5800

Indicate by check mark whether the registrant (1) 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       Accelerated filer       Non-accelerated filer       Smaller reporting Company   
(Do not check if a smaller reporting company)

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

As of September 2, 2011, there were 115,110,157 shares of the Registrant's \$.01 par value Common Stock ("Common Stock"), the Registrant's only outstanding class of voting securities.

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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 JULY 31, 2011

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

|   | July 31,<br>2011<br>(Unaudited) | October 31,<br>2010<br>** |
|---|---------------------------------|---------------------------|
| <b>ASSETS</b>   |                                 |                           |
| <b>CURRENT ASSETS</b>   |                                 |                           |
| Cash and cash equivalents   | \$8,320,341                     | \$10,570,598              |
| Restricted cash (Note 5)  | 573,356                         | —                         |
| Other receivables   | 12,048                          | 17,965                    |
| Prepaid expenses  | 262,495                         | 248,417                   |
| Prepaid income taxes  | 9,137                           | 22,231                    |
| Total Current Assets  | 9,177,377                       | 10,859,211                |
| <b>PROPERTY CONCESSIONS</b>   |                                 |                           |
| Sierra Mojada, Mexico (Notes 7 and 22)  | 5,048,415                       | 4,318,292                 |
| Gabon, Africa (Notes 7 and 8)   | 4,647,023                       | 4,396,915                 |
|   | 9,695,438                       | 8,715,207                 |
| <b>EQUIPMENT</b>  |                                 |                           |
| Office and mining equipment, net of accumulated depreciation<br>of \$929,141 and \$941,781, respectively (Note 9)             | 955,716                         | 1,361,358                 |
| <b>OTHER ASSETS</b>   |                                 |                           |
| Value-added tax receivable, net of allowance for uncollectible taxes of \$1,306,458<br>and \$1,241,876, respectively (Note 6) | 1,602,915                       | 629,338                   |
| Goodwill (Note 10)  | 20,500,168                      | 19,738,862                |
| Other assets  | 122,504                         | 9,435                     |
| Asset held for sale (Note 11)   | 223,757                         | —                         |
|   | 22,449,344                      | 20,377,635                |
| <b>TOTAL ASSETS</b>   | <b>\$42,277,875</b>             | <b>\$41,313,411</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                           |
| <b>CURRENT LIABILITIES</b>  |                                 |                           |
| Accounts payable  | \$1,175,623                     | \$729,314                 |
| Accrued liabilities and expenses  | 658,142                         | 241,389                   |
| Accrued severance costs   | —                               | 184,000                   |
| Income tax payable—184,000  | 12,649                          | —                         |
| Payable to joint venture partner (Note 8)   | 727,706                         | 632,687                   |
| Other liabilities (Note 12)   | 223,757                         | —                         |
| Total Current Liabilities   | 2,797,877                       | 1,787,390                 |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 14 and 19)</b>  |                                 |                           |

STOCKHOLDERS' EQUITY (Notes 14, 15, 16, 17 and 22)

|   |                     |                     |
|---|---------------------|---------------------|
| Common stock, \$0.01 par value; 300,000,000 shares authorized,<br>115,110,157 and 105,929,762 shares issued and outstanding, respectively | 1,151,101           | 1,059,297           |
| Additional paid-in capital  | 105,004,910         | 98,358,340          |
| Deficit accumulated during exploration stage  | (67,894,484 )       | (61,322,505 )       |
| Other comprehensive income  | 1,218,471           | 1,430,889           |
| Total Stockholders' Equity  | 39,479,998          | 39,526,021          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$42,277,875</b> | <b>\$41,313,411</b> |

\*\* Derived from the audited financial statements for the year ended October 31, 2010.

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

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

|   | Three Months Ended<br>July 31, |                     | Nine Months Ended<br>July 31, |                     | Period from<br>November<br>8,<br>1993<br>(Inception)<br>to July 31,<br>2011 |
|---|--------------------------------|---------------------|-------------------------------|---------------------|---|
|   | 2011                           | 2010                | 2011                          | 2010                |   |
| REVENUES  | \$—                            | \$ —                | \$—                           | \$ —                | \$—   |
| <b>EXPLORATION AND PROPERTY HOLDING COSTS</b>       |                                |                     |                               |                     |   |
| Exploration and property holding costs              | 2,345,707                      | 2,340,380           | 5,412,519                     | 3,607,326           | 32,569,160  |
| Depreciation and asset write-off                    | 46,109                         | 56,621              | 163,252                       | 151,585             | 1,310,872   |
| <b>TOTAL EXPLORATION AND PROPERTY HOLDING COSTS</b> | <b>2,391,816</b>               | <b>2,397,001</b>    | <b>5,575,771</b>              | <b>3,758,911</b>    | <b>33,880,032</b>   |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>          |                                |                     |                               |                     |   |
| Personnel   | 247,356                        | 865,045             | 1,217,591                     | 1,316,906           | 16,020,394  |
| Office and administrative                           | 117,872                        | 111,479             | 518,917                       | 333,377             | 3,867,403   |
| Professional services                               | 38,811                         | 187,447             | 425,019                       | 582,552             | 8,053,198   |
| Directors' fees                                     | 168,351                        | 104,316             | 432,241                       | 221,082             | 4,343,883   |
| Provision for uncollectible value-added taxes       | —                              | 59,361              | —                             | 211,410             | 1,205,395   |
| Depreciation  | 2,401                          | 2,666               | 9,075                         | 12,007              | 244,570   |
| <b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>    | <b>574,791</b>                 | <b>1,330,314</b>    | <b>2,602,843</b>              | <b>2,677,334</b>    | <b>33,734,843</b>   |
| <b>LOSS FROM OPERATIONS</b>                         | <b>(2,966,607 )</b>            | <b>(3,727,315 )</b> | <b>(8,178,614 )</b>           | <b>(6,436,245 )</b> | <b>(67,614,875 )</b>  |
| <b>OTHER INCOME (EXPENSES)</b>                      |                                |                     |                               |                     |   |
| Interest and investment income                      | 5,409                          | 32,350              | 34,900                        | 39,689              | 933,263   |
| Foreign currency transaction (loss) gain            | (420,540 )                     | (766,193 )          | 1,554,105                     | 580,632             | (934,314 )  |
| Miscellaneous income (expense)                      | 4,712                          | 4,764               | 47,843                        | 4,764               | (20,030 )   |
| <b>TOTAL OTHER (EXPENSE) INCOME</b>                 | <b>(410,419 )</b>              | <b>(729,079 )</b>   | <b>1,636,848</b>              | <b>625,085</b>      | <b>(21,081 )</b>  |

|  |                |                |                |                |                 |
|--|----------------|----------------|----------------|----------------|-----------------|
| LOSS BEFORE INCOME TAXES   | (3,377,026 )   | (4,456,394 )   | (6,541,766 )   | (5,811,160 )   | (67,635,956 )   |
| INCOME TAX EXPENSE (BENEFIT)   | 6,826          | 5,728          | 30,213         | (8,318 )       | 132,438         |
| NET LOSS   | \$(3,383,852 ) | \$(4,462,122 ) | \$(6,571,979 ) | \$(5,802,842 ) | \$(67,768,394 ) |
| OTHER COMPREHENSIVE (LOSS) INCOME – Foreign currency translation adjustments | (272,727 )     | 535,243        | (212,418 )     | (469,270 )     | 1,218,471       |
| COMPREHENSIVE LOSS   | \$(3,656,579 ) | \$(3,926,879 ) | \$(6,784,397 ) | \$(6,272,112 ) | \$(66,549,923 ) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE                                  | \$(0.03 )      | \$(0.04 )      | \$(0.06 )      | \$(0.08 )      |                 |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING       | 112,284,201    | 104,221,121    | 108,248,406    | 73,206,577     |                 |

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)

|  | Nine Months Ended<br>July 31, |                | Period from<br>November 8,<br>1993<br>(Inception)<br>to July 31,<br>2011 |
|--|-------------------------------|----------------|--|
|  | 2011                          | 2010           |  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |                               |                |  |
| Net loss   | \$(6,571,979 )                | \$(5,802,842 ) | \$(67,768,394 )  |
| Adjustments to reconcile net loss to net cash used by operating activities:        |                               |                |  |
| Depreciation and (gain) loss on sale of equipment                                  | 132,112                       | 173,272        | 1,542,100  |
| Provision for uncollectible value-added taxes                                      | —                             | 209,284        | 1,198,420  |
| Noncash expenses   | —                             | —              | 126,864  |
| Foreign currency transaction (gain) loss   | (1,570,556 )                  | (567,626 )     | 1,083,790  |
| Common stock issued for services and payment of expenses                           | —                             | —              | 1,563,574  |
| Common stock issued for compensation and directors' fees                           | —                             | 95,832         | 1,753,222  |
| Stock options issued for compensation  | 887,898                       | 57,312         | 8,903,106  |
| 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   | (924,200 )                    | (480,389 )     | (2,793,806 )   |
| Restricted cash  | (558,188 )                    | —              | (558,188 )   |
| Other receivables  | 6,471                         | 20,295         | 673  |
| Prepaid income taxes and expenses  | 7,122                         | (270,493 )     | (239,599 )   |
| Deposits   | (7,849 )                      | (2,593 )       | (12,595 )  |
| Increase (decrease) in, net of merger transaction:                                 |                               |                |  |
| Accounts payable   | 415,864                       | 283,026        | 879,880  |
| Income tax payable   | 12,402                        | (9,527 )       | 15,291   |
| Accrued liabilities and expenses   | 402,335                       | 456,343        | 657,561  |
| Accrued severance costs  | (184,000 )                    | —              | —  |
| Deferred salaries and costs  | —                             | (393,903 )     | —  |
| Other liabilities  | 219,383                       | —              | 227,032  |
| Net cash used by operating activities  | (7,733,185 )                  | (6,232,009 )   | (48,651,229 )  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |                               |                |  |
| Purchase of investments  | —                             | —              | (21,609,447 )  |
| Proceeds from sale of investments  | —                             | —              | 21,609,447   |
| Cash acquired in merger with Dome Ventures   | —                             | 2,618,548      | 2,618,548  |
| Equipment purchases  | (95,284 )                     | (483,460 )     | (2,970,458 )   |
| Proceeds from sale of equipment  | 208,648                       | 8,900          | 217,548  |
| Proceeds from sale of property concessions   | —                             | —              | 100,000  |
| Acquisition of property concessions  | (495,673 )                    | (372,815 )     | (5,501,189 )   |
| Net cash (used by) provided by investing activities                                | (382,309 )                    | 1,771,173      | (5,535,551 )   |



## CASH FLOWS FROM FINANCING ACTIVITIES:

|   |              |              |             |
|---|--------------|--------------|-------------|
| Proceeds from issuance of common stock                | 4,962,219    | 14,951,516   | 54,735,929  |
| Proceeds from sales of options and warrants           | —            | —            | 949,890     |
| Proceeds from exercise of options                     | 188,913      | —            | 188,913     |
| Proceeds from exercise of warrants                    | 699,344      | 953,595      | 6,350,286   |
| Payment of financing costs                            | (104,707 )   | —            | (104,707 )  |
| Payable to joint venture partner                      | 72,895       | 470,294      | 655,267     |
| Proceeds from shareholder loans                       | —            | —            | 30,000      |
| Payment of note payable                               | —            | —            | (15,783 )   |
| Net cash provided by financing activities             | 5,818,664    | 16,375,405   | 62,789,795  |
| Effect of exchange rates on cash and cash equivalents | 46,573       | (62,399 )    | (282,674 )  |
| Net (decrease) increase in cash and cash equivalents  | (2,250,257 ) | 11,852,170   | 8,320,341   |
| Cash and cash equivalents beginning of period         | 10,570,598   | 1,482,943    | —           |
| Cash and cash equivalents end of period               | \$8,320,341  | \$13,335,113 | \$8,320,341 |

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)

|   | Nine Months Ended<br>July 31, |              | Period from<br>November 8,<br>1993<br>(Inception)<br>to July 31,<br>2011 |
|---|-------------------------------|--------------|--|
|   | 2011                          | 2010         |  |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>          |                               |              |  |
| Income taxes paid                                   | \$—                           | \$27,026     | \$117,008  |
| Interest paid                                       | \$—                           | \$—          | \$286,771  |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b> |                               |              |  |
| Common stock issued in merger with Dome             | \$—                           | \$24,840,886 | \$24,840,886   |
| Warrants issued in merger with Dome                 | \$—                           | \$1,895,252  | \$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    | \$727                         | \$—          | \$59,947   |

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

## 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”).

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. The Company conducts its exploration activities in Gabon, Africa through Dome Ventures SARL Gabon and African Resources SARL Gabon. The Company included the financial results of Dome and its subsidiaries in the Company’s consolidated statement of operations effective April 16, 2010.

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, and 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.

## 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/A for the year ended October 31, 2010.

The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. 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 consolidation 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.

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### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are defined in the Company's Form 10-K/A for the year ended October 31, 2010 filed on May 20, 2011 except as follows to further clarify the accounting policy.

#### Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rates during the period. Exchange differences arising on translation are disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations. Intercompany transactions and balances with the Company's Mexican and Gabonese subsidiaries are considered to be short-term in nature and accordingly all foreign currency transaction gains and losses on intercompany loans are included in the consolidated statement of operations.

On July 7, 2011, the Company agreed to convert \$13.4 million of intercompany loans to future capital increases. Subsequent to July 7, 2011, the Company no longer recognizes foreign currency transaction gains or losses on the intercompany loans which were converted.

#### Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06 which provides amendments to ASC Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows. The disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The Company does not expect that the full adoption of ASU No. 2010-06 will 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 6,117,854 shares and 17,048,238 shares outstanding at July 31, 2011 and 2010. They were not included in the calculation of loss per share because they would have been considered anti-dilutive.

NOTE 5 – RESTRICTED CASH

At July 31, 2011, the Company has \$573,356 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 8).

NOTE 6 – VALUE-ADDED TAX

The Company records a receivable for value added (“IVA”) taxes recoverable from governmental authorities on goods and services purchased by its Mexican and Gabonese subsidiaries.

During 2008, the Company filed IVA tax returns with the Mexican authorities to recover approximately \$746,000 of 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.

In 2010, the Company hired a new IVA tax consultant and changed its fiscal reporting jurisdiction to a larger municipality in an effort to collect these tax receivables. During the nine months ended July 31, 2011, the Company hired an additional IVA tax consultant who began preparation of an initial IVA tax return for 2010 which the Company filed with the Mexico tax authorities on May 2, 2011. The Company received a request for additional supporting documentation which has been provided and is awaiting a response from the Mexican tax authorities.

At October 31, 2010, management evaluated the IVA tax receivable and increased the allowance for uncollectible taxes to approximately 15.4 million Pesos or \$1,241,876. 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.

At July 31, 2011, management evaluated the IVA tax receivable and has determined that the allowance for uncollectible taxes of 15.4 million Pesos or \$1,306,458 is reasonable and no additional provision was required for the nine months ended July 31, 2011. Due to the uncertainty of when any IVA taxes will be recovered, the Company continues to reflect the net IVA tax receivable as a long-term asset on the Consolidated Balance Sheet as of July 31, 2011.

A summary of the changes in the allowance for uncollectible taxes for the nine months ended July 31, 2011 is as follows:

|                                     |              |
|-------------------------------------|--------------|
| Allowance for uncollectible taxes – |              |
| October 31, 2010                    | \$ 1,241,876 |
| Foreign currency translation        |              |
| adjustment                          | 64,582       |
|                                     | \$ 1,306,458 |

Allowance for uncollectible taxes –  
July 31, 2011

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## NOTE 7 – PROPERTY CONCESSIONS

The following is a summary of the Company's property concessions in Sierra Mojada, Mexico and Gabon, Africa as at July 31, 2011 and October 31, 2010, respectively:

|   | Sierra Mojada,<br>Mexico | Gabon,<br>Africa |
|---|--------------------------|------------------|
| Property Concessions – October 31, 2010 | \$ 4,318,292             | \$ 4,396,915     |
| Acquisitions                            | 495,673                  | —                |
| Foreign currency translation adjustment | 234,450                  | 250,108          |
| Property Concessions – July 31, 2011    | \$ 5,048,415             | \$ 4,647,023     |

## NOTE 8 – JOINT VENTURE AGREEMENTS

In October 2009, Dome (a wholly owned subsidiary of the Company) 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 on exploration which AngloGold completed on November 30, 2010. AngloGold will then 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 over the next three years and by incurring exploration expenditures in the amount of \$3.7 million over the next three years 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 July 31, 2011, AngloGold has incurred exploration expenditures of approximately \$4.7 million and has made the first payment of \$100,000 pursuant to the provisions above.

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.

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 July 31, 2011, the payable to AngloGold was \$727,706.

#### NOTE 9 - EQUIPMENT

The following is a summary of the Company's property and equipment at July 31, 2011 and October 31, 2010, respectively:

|                                 | July 31,<br>2011 | October 31,<br>2010 |
|---------------------------------|------------------|---------------------|
| Mining equipment                | \$ 1,164,720     | \$ 1,639,726        |
| Vehicles                        | 212,882          | 181,040             |
| Buildings and structures        | 206,211          | 193,257             |
| Computer equipment and software | 202,588          | 192,927             |
| Well equipment                  | 43,934           | 41,762              |
| Office equipment                | 40,434           | 44,470              |
| Communication equipment         | 14,088           | 9,957               |
|                                 | 1,884,857        | 2,303,139           |
| Less: Accumulated depreciation  | (929,141 )       | (941,781 )          |
|                                 | \$ 955,716       | \$ 1,361,358        |

#### 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 July 31, 2011 the Company did not identify any potential indicators of impairment.

The following is a summary of the Company's goodwill balance as at July 31, 2011 and October 31, 2010, respectively:

|   |               |
|---|---------------|
| Goodwill – October 31, 2010             | \$ 19,738,862 |
| Foreign currency translation adjustment | 761,306       |
| Goodwill – July 31, 2011                | \$ 20,500,168 |

#### NOTE 11 – ASSET HELD FOR SALE

The Company has classified a drill rig as an asset held for sale as at July 31, 2011 as the asset was ready for immediate sale in its present condition and the asset was expected to be sold within one year. The Company is currently contracting the majority of its drilling activities and the owned drill rig is being divested. The drill rig was subsequently sold on August 2, 2011 for net proceeds of \$223,757.

As at July 31, 2011, the drill rig held for sale had a net book value of \$223,958 and was written down to the fair value less costs to sell of \$223,757. The difference in net book value and fair value less costs to sell was recorded in the

consolidated statement of operations during the period ended July 31, 2011.

**NOTE 12 – OTHER LIABILITIES**

The other liabilities balance as at July 31, 2011 relates entirely to an advance received for the sale of the drill rig which is classified as an asset held for sale (Note 11).

**NOTE 13 - RELATED PARTY TRANSACTIONS**

The Company has an arrangement with Rand Edgar Investment Corp., a company owned 50% by Brian Edgar, the Company's Chairman, whereby the Company pays approximately \$10,000 per month for rent and administrative services for an office in Vancouver, British Columbia. During the three and nine months ended July 31, 2011 the Company paid \$30,380 and \$91,887 respectively, to Rand Edgar Investment Corp. for rent and administrative services.

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#### NOTE 14 – 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 July 31, 2011, there are 115,110,157 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 anti-takeover mechanisms of the Rights Agreement were not triggered by the merger transaction with Dome and no holders of the Rights were entitled to exercise their Rights as a result of that transaction or any events described in the Merger Agreement. The Rights will expire on June 11, 2017.

#### NOTE 15 - COMMON STOCK

During the nine months ended July 31, 2011, the Company completed a private placement of 7,353,000 shares of common stock at \$0.68 per share. The Company also issued 1,385,353 shares of common stock upon the exercise of warrants at an average cash consideration of \$0.50 per share. Options to acquire 369,355 shares of common stock were also exercised at an average exercise price of \$0.51 per share. In addition, options to acquire 400,261 shares of common stock were exercised by way of a cashless exercise whereby the recipients elected to receive 72,687 shares without payment of the cash exercise price and the remaining options for 327,574 shares were cancelled.

During the nine months ended July 31, 2010, the Company issued 2,308,281 shares of common stock upon the exercise of warrants at an average cash consideration of \$0.41 per share and issued 118,800 shares of common stock at an average market price of \$0.81 per share to its independent directors for services provided. In addition, options to acquire 353,250 shares of common stock were exercised by way of a cashless exercise whereby the recipients elected to receive 197,269 shares without payment of the exercised price and the remaining options for 155,981 shares were cancelled.

#### NOTE 16 - 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 nine months ended July 31, 2011 and 2010 are as follows:

| Options                  | Nine months Ended<br>July 31, |      |
|--------------------------|-------------------------------|------|
|                          | 2011                          | 2010 |
| Expected volatility      | 96% – 113%                    | —    |
| Risk-free interest rate  | 0.59% –<br>1.53%              | —    |
| Dividend yield           | —                             | —    |
| Expected term (in years) | 2.50 – 3.50                   | —    |

During the nine months ended July 31, 2011, options to acquire 369,355 shares of common stock were also exercised at an average exercise price of \$0.51 per share. In addition, options to acquire 400,261 shares of common stock were exercised by way of a cashless exercise whereby the recipients elected to receive 72,687 shares without payment of the exercise price and the remaining options for 327,574 shares were cancelled. The options had a combined intrinsic value of \$197,034 at the time of exercise. Also during the nine months ended July 31, 2011, the Company granted options to acquire 1,455,000 shares of common stock with a weighted-average grant-date fair value of \$0.69.

During the nine months ended July 31, 2010, options to acquire 197,269 shares of common stock were exercised by way of a cashless exercise at an average exercise price of \$0.34 per share. The options had an intrinsic value of \$84,827 at the time of exercise. No options were granted in the nine months ended July 31, 2010.

The following is a summary of stock option activity for the nine months ended July 31, 2011:

| Options  | Shares       | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Aggregate<br>Intrinsic<br>Value |
|--|--------------|---------------------------------------|---|---------------------------------|
| Outstanding at November<br>1, 2010             | 6,901,692    | \$ 1.59                               |   |                                 |
| Granted  | 1,455,000    | 1.06                                  |   |                                 |
| Exercised                                      | (442,042 )   | 0.52                                  |   |                                 |
| Forfeited or cancelled                         | (792,384 )   | 0.85                                  |   |                                 |
| Expired  | (3,034,645 ) | 2.25                                  |   |                                 |
| Outstanding at July 31,<br>2011                | 4,087,621    | \$ 1.17                               | 4.57  | \$ —                            |
| Vested or Expected to<br>Vest at July 31, 2011 | 4,087,621    | \$ 1.17                               | 4.57  | \$ —                            |
| Exercisable at July 31,<br>2011                | 2,069,287    | \$ 1.50                               | 4.87  | \$ —                            |

The Company recognized stock-based compensation costs for stock options of \$887,898 and \$57,312 for the nine months ended July 31, 2011 and 2010, respectively. The Company typically does not recognize any tax benefits for stock options due to the Company's recurring losses. The Company currently expects all outstanding options to vest.

Compensation cost is revised if subsequent information indicates that the actual number of options vested is likely to differ from previous estimates.

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Summarized information about stock options outstanding and exercisable at July 31, 2011 is as follows:

| Exercise Price | Options Outstanding |  |                                 | Options Exercisable |                                 |
|----------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
|                | Number Outstanding  | Weighted Ave. Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$ 0.70 – 1.20 | 3,473,333           | 4.26   | \$ 0.84                         | 1,454,999           | \$ 0.84                         |
| 2.18 - 2.85    | 364,288             | 6.57   | 2.21                            | 364,288             | 2.21                            |
| 4.30           | 250,000             | 5.89   | 4.30                            | 250,000             | 4.30                            |
| 0.34 - \$ 4.30 | 4,087,621           | 4.57   | \$ 1.17                         | 2,069,287           | \$ 1.50                         |

A summary of the non-vested shares as of July 31, 2011 and changes during the nine months ended July 31, 2011 is as follows:

| Nonvested Shares              | Shares     | Weighted-Average Grant-Date Fair Value |
|-------------------------------|------------|--|
| Nonvested at November 1, 2010 | 1,963,337  | \$ 0.51                                |
| Granted                       | 1,455,000  | 0.69                                   |
| Vested                        | (607,620 ) | 0.74                                   |
| Forfeited                     | (792,383 ) | 0.57                                   |
| Nonvested at July 31, 2011    | 2,018,334  | \$ 0.55                                |

As of July 31, 2011, there was \$464,066 of total unrecognized compensation costs related to non-vested share based compensation arrangements granted under the qualified stock option plans. That cost is expected to be recognized over a weighted average period of 4.26 years.

#### NOTE 17 - WARRANTS

A summary of warrant activity for the nine months ended July 31, 2011 is as follows:

| Warrants                        | Shares       | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---------------------------------|--------------|---------------------------------|---|---------------------------|
| Outstanding at November 1, 2010 | 12,315,677   | \$ 1.21                         |   |                           |
| Exercised                       | (1,385,353 ) | 0.50                            |   |                           |
|                                 | (8,900,091 ) | 1.30                            |   |                           |



|                              |           |         |      |            |  |
|------------------------------|-----------|---------|------|------------|--|
| Forfeited or expired         |           |         |      |            |  |
| Outstanding at July 31, 2011 | 2,030,233 | \$ 1.27 | 0.77 | \$ 249,112 |  |
| Exercisable at July 31, 2011 | 2,030,233 | \$ 1.27 | 0.77 | \$ 249,112 |  |

During the nine months ended July 31, 2011, warrants to acquire 1,385,353 shares of common stock with an intrinsic value of \$786,112 were exercised at a weighted average exercise price of \$0.50 per share.

Summarized information about warrants outstanding and exercisable at July 31, 2011 is as follows:

| Exercise Price | Warrants Outstanding |  |                                 | Warrants Exercisable |                                 |
|----------------|----------------------|--|---------------------------------|----------------------|---------------------------------|
|                | Number Outstanding   | Weighted Ave. Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable   | Weighted Average Exercise Price |
| 0.34 - \$ 0.70 | 1,470,623            | 0.91   | \$ 0.51                         | 1,470,623            | \$ 0.51                         |
| 2.13 - 3.40    | 559,610              | 0.41   | 3.26                            | 559,610              | 3.26                            |
| 0.34 - \$ 3.40 | 2,030,233            | 0.77   | \$ 1.27                         | 2,030,233            | \$ 1.27                         |

#### NOTE 18 – FINANCIAL INSTRUMENTS

The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, restricted cash, other receivables, accounts payable, accrued liabilities and expenses and accrued severance costs approximate fair value at July 31, 2011 and October 31, 2010 due to the short maturities of these financial instruments.

#### Credit Risk

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

The Company maintains its US Dollar and Canadian Dollar (“\$CDN”) cash and cash equivalents in bank and demand deposit accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the Federal Deposit Insurance Corporation (“FDIC”) for up to \$250,000 and \$CDN cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation (“CDIC”) for up to \$CDN 150,000. Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they related to US Dollar deposits held in Canadian financial institutions. As of July 31, 2011 and October 31, 2010, the Company’s cash and cash equivalent balances held in United States and Canadian financial institutions included \$7,472,967 and \$9,522,180 respectively, which was not insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

The Company also maintains cash in bank accounts in Mexico and Gabon. These accounts are denominated in the local currency and are considered uninsured. As of July 31, 2011 and October 31, 2010, the US dollar equivalent balance for these accounts was \$1,168,451 and \$798,418, respectively.

#### Foreign Currency Exchange Risk

Certain purchases of labor, operating supplies and capital assets are denominated in Canadian Dollars (“\$CDN”), Mexican Pesos, Central African Francs (“\$CFA”) or other currencies. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Mexican Peso, \$CDN or \$CFA against the US

dollar may result in an increase in operating expenses and capital costs in US dollar terms. To reduce this risk as of July 31, 2011, the Company maintains minimum cash balances in foreign currencies, including \$CFA and Mexican Pesos and the Company completes the majority of purchases, including capital expenditures relating to the Sierra Mojada Property, in US Dollars. The Company currently does not engage in any currency hedging activities.

Subsequent to July 31, 2011, the Company transferred the majority of its US dollar cash balances into \$CDN as the Company expects the appreciation of the \$CDN against the US dollar in the short-term. The Company expects to convert the \$CDN cash balances as needed into US dollars to pay for US dollar expenditures and to use \$CDN cash balances for \$CDN expenditures as the Company maintains its Corporate office in Canada.

## Liquidity Risk

The Company is exposed to liquidity risk from the potential inability to generate or obtain sufficient cash in a timely and cost-effective manner to discharge its financial liabilities as they come due. The Company manages liquidity risk by forecasting cash flows to identify financing requirements and through rigorous budgeting, forecasting and planning.

## NOTE 19 - COMMITMENTS AND CONTINGENCIES

### Compliance with Environmental Regulations

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

### Employment Agreements

In January 2007, the Company entered into an employment with Terry Brown as Vice President Operations which provided for an annual salary of \$150,000 and was effective to January 1, 2012. Effective November 1, 2010, Terry Brown ceased serving as Vice President Operations. The Company entered into a severance agreement with Mr. Brown whereby he agreed to waive any and all legal claims (known or unknown) he may have against the Company in exchange for severance payments totaling approximately \$175,000. The amount of this sum severance amount was determined based on the termination and change in control provisions in Mr. Brown's employment agreement and was paid during January 2011.

In January 2008, the Company entered into an employment agreement with Robert Devers, as Chief Financial Officer that provided for an annual base salary of \$165,000. Effective April 15, 2011, Robert Devers ceased serving as Chief Financial Officer. The Company entered into a severance agreement with Mr. Devers whereby he agreed to waive any and all legal claims (known or unknown) he may have against the Company in exchange for severance payments totaling approximately \$165,000. The amount of this sum severance amount was determined based on the termination provisions in Mr. Devers's employment agreement and was paid in April 2011.

On August 4, 2010 (although effective as of July 1, 2010), the Company entered into a consulting agreement with an entity controlled by Mr. Hahn, that set forth the terms by which Mr. Hahn served as the Company's interim President and Chief Executive Officer. Effective September 1, 2010 the agreement was amended to provide that Mr. Hahn will devote approximately 75% of his business related time to the Company (which resulted in the increase in his compensation). Initially Mr. Hahn was compensated at the rate of \$12,000 per month while serving as an executive officer, however effective September 1, 2010 his compensation was increased to \$18,000 due to the increased time demands imposed on Mr. Hahn. Effective February 25, 2011, Mr. Hahn resigned as Interim President and Chief Executive Officer to correspond with the appointment of Mr. Barry as President and Chief Executive Officer and the consulting agreement between the entity controlled by Mr. Hahn and the Company was terminated.

On April 16, 2010 the Company and Brian Edgar, the Executive Chairman of the Board of Directors, agreed to the materials terms of his compensation. In September 2010, the Company entered into an employment agreement with Mr. Edgar memorializing the terms of his employment. The employment agreement has a term through April 15, 2012. Mr. Edgar will receive \$7,500 per month in his capacity as Executive Chairman. The employment agreement provides that Mr. Edgar is entitled to a severance payment if the agreement is terminated under certain circumstances including if Mr. Edgar is terminated without cause. On September 2, 2011, the Company entered into a new employment agreement with Mr. Edgar, as the Executive Chairman of the Board of Directors that revised the change

in control provision. In the event of a change in control upon Mr. Edgar providing written notice of termination, the Company shall pay his base salary for up to 12 months plus the previous year bonus.

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Effective September 1, 2010, the Company entered into an employment agreement with Timothy Barry, as Vice President Exploration. Mr. Barry's employment agreement remained in effect upon his appointment to President and Chief Executive Officer on February 25, 2011. On September 2, 2011 (although effective June 1, 2011), the Company entered into a new employment agreement with Mr. Barry, as President and Chief Executive Officer that provides for base compensation of \$CDN 18,000 per month (or \$CDN 216,000 annually) and potential bonus of \$CDN 30,000 if certain performance targets are met. The employment agreement provides that Mr. Barry is entitled to written notice of termination for up to 12 months if Mr. Barry meets certain employment terms and is terminated without cause. In the event of a change in control upon Mr. Barry providing written notice of termination, the Company shall pay his base salary for up to 18 months plus the previous year bonus if Mr. Barry is employed more than 24 months.

On January 24, 2011, the Company entered into an employment agreement with Sean Fallis, as Vice President Finance that provides for an annual base salary of \$CDN 150,000. The employment agreement commenced on February 7, 2011 and provides that Mr. Fallis is entitled to written notice of termination for up to six months if Mr. Fallis meets certain employment terms and is terminated without cause. In the event of a change in control upon Mr. Fallis providing written notice of termination, the Company shall pay his base salary for up to 12 months if Mr. Fallis is employed more than 36 months. Effective April 15, 2011 Mr. Fallis was appointed Chief Financial Officer.

#### Royalty Agreement

In connection with the purchase of certain property concessions, the Company has agreed to pay the previous owners a net royalty interest on revenue from future mineral sales.

#### Property Concessions

To properly maintain property concessions in Mexico, the Company is required to pay a semi-annual fee to the Mexican government and complete annual assessment work. Annual assessment work in excess of statutory requirements can be carried forward and applied to future periods. The Company has completed sufficient to meet future requirements for many years.

In addition, the Company has entered into agreements with several Mexican individuals to acquire seven property concessions in the Sierra Mojada Property prospect area. The agreements are considered option purchase agreements and give the Company the option, but not the obligation, to acquire the seven concessions at established prices over the next 1 to 3 years. Pursuant to the option purchase agreements, the Company is required to make certain payments on a semi-annual or annual basis over the terms of these contracts. The Company will record these payments as property concession assets. In the event the Company elects not to move forward with the purchase option outlined in the agreements, the Company will expense all cumulative costs deferred for each respective concession.

The Company holds title to several property concessions in Gabon, Africa that require the Company to spend minimal amounts each term to renew the licenses. The initial term of these exploration licenses expires on September 18, 2011 and each license is renewable twice with each renewal lasting for three years. The Company must spend 200,000,000 CFA francs in order to renew each exploration license for a second term of three years and 400,000,000 CFA francs in order to renew the license for a third term of three years. The Company must spend 800,000,000 CFA francs in the third term. Dome may apply for a mining license at any time during these periods. As of July 31, 2011, one US Dollar approximates 468 CFA francs.

#### Drilling Agreement

The Company entered into an agreement with a subsidiary of Major Drilling Group International Inc. ("Major") for a minimum of 20,000 meters of drilling at the Sierra Mojada Property. The remaining Major drilling commitment was

equal to \$390,011 over the life of the contract.

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NOTE 20 – SEGMENT INFORMATION

The Company operates in one business segment being the exploration of mineral property interests. The Company has mineral property interests in Sierra Mojada, Mexico and Gabon, Africa.

Geographic information is approximately as follows:

|                               | For the Three Months Ended<br>July 31, |                 | For the Nine Months Ended<br>July 31, |                 | Period from<br>November 8,<br>1993<br>(Inception) To<br>July 31,<br>2011 |
|-------------------------------|--|-----------------|---------------------------------------|-----------------|--|
|                               | 2011                                   | 2010            | 2011                                  | 2010            |  |
| Net loss<br>for the<br>period |  |                 |                                       |                 |  |
| Mexico                        | \$ (2,703,000 )                        | \$ (2,929,000 ) | \$ (3,878,000 )                       | \$ (2,625,000 ) | \$ (31,958,000 )   |
| Canada                        | (575,000 )                             | (28,000 )       | (2,581,000 )                          | (39,000 )       | (2,623,000 )   |
| Gabon                         | (106,000 )                             | (28,000 )       | (113,000 )                            | (54,000 )       | (82,000 )  |
| United<br>States              | —                                      | (1,477,000 )    | —                                     | (3,085,000 )    | (33,171,000 )  |
|                               | \$ (3,384,000 )                        | \$ (4,462,000 ) | \$ (6,572,000 )                       | \$ (5,803,000 ) | \$ (67,769,000 )   |

|   | For the Three Months Ended<br>July 31, |                 | For the Nine Months Ended<br>July 31, |                 | Period from<br>November 8,<br>1993<br>(Inception) To<br>July 31,<br>2011 |
|---|--|-----------------|---------------------------------------|-----------------|--|
|   | 2011                                   |                 | 2011                                  |                 |  |
| Exploration<br>and property<br>holding<br>costs for the<br>period |  |                 |                                       |                 |  |
| Mexico  | \$ (2,306,000 )                        | \$ (2,397,000 ) | \$ (5,406,000 )                       | \$ (3,759,000 ) | \$ (33,710,000 )   |
| Gabon   | (86,000 )                              | —               | (170,000 )                            | —               | (170,000 )   |
|   | \$ (2,392,000 )                        | \$ (2,397,000 ) | \$ (5,576,000 )                       | \$ (3,759,000 ) | \$ (33,880,000 )   |

|               | July 31,<br>2011 | October 31,<br>2010 |
|---------------|------------------|---------------------|
| Total assets  |                  |                     |
| Mexico        | \$ 28,527,000    | \$ 26,113,000       |
| Canada        | 583,000          | 117,000             |
| Gabon         | 5,791,000        | 5,262,000           |
| United States | 7,377,000        | 9,821,000           |
|               | \$ 42,278,000    | \$ 41,313,000       |



The Company has significant assets in Coahuila, Mexico and Gabon, Africa. Although these countries are generally considered economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations. Neither the Mexican government nor the Gabonese government requires foreign entities to maintain cash reserves in their respective country.

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The following table details foreign assets included in the accompanying balance sheet at July 31, 2011:

|                                  | Mexico        | Gabon        |
|----------------------------------|---------------|--------------|
| Cash and cash equivalents        | \$ 582,837    | \$ 12,259    |
| Restricted cash                  | —             | 573,356      |
| Other receivables                | 10,121        | 427          |
| Prepaid expenses and taxes       | 169,460       | —            |
| Property concessions             | 5,048,415     | 4,647,023    |
| Office and mining equipment, net | 912,589       | 16,907       |
| Value-added tax receivable, net  | 1,079,689     | 523,226      |
| Goodwill                         | 20,500,168    | —            |
| Other assets                     | —             | 17,797       |
| Assets held for sale             | 223,757       | —            |
|                                  | \$ 28,527,036 | \$ 5,790,995 |

#### NOTE 21 – RECLASSIFICATION

Certain reclassifications have been made to the prior period and inception to date consolidated financial statements in order to conform to the 2011 presentation. These reclassifications have no effect on net loss, total assets or accumulated deficit as previously reported.

#### NOTE 22 – SUBSEQUENT EVENTS

On August 4, 2011, the Company entered into an independent contractor agreement with Jason Cunliffe, as the newly appointed Vice President of Exploration. Pursuant to the agreement Mr. Cunliffe will receive \$700 per day for each day actually worked and a potential annual bonus of \$20,000 if certain performance targets are met. The agreement continues on a month-to-month basis and can be terminated by either party with 30 days advance notice. In the event of a change in control upon Mr. Cunliffe providing written notice of termination, the Company shall pay his daily consulting rate for up to 240 days if Mr. Cunliffe is employed more than 36 months.

On August 5, 2011, the Company granted an aggregate of 840,000 options to an employee and consultants pursuant to the Company's 2010 Stock Option Plan. All of the options have an exercise price of \$0.63 per share and have a five year term. Each of the options vested one third on the grant date, one third on August 5, 2012, and the final one third on August 5, 2013.

In August 2011, the Company entered into agreements with Mexican individuals to acquire three additional property concessions in the Sierra Mojada Property prospect area. The agreements are considered option purchase agreements and give the Company the option, but not the obligation, to acquire the three property concessions at established prices over the next two to five years.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

When we use the terms "Silver Bull," the "Company," "we," "us," or "our," we are referring to Silver Bull Resources, Inc. and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under "Glossary of Common Terms" in our Annual Report on Form 10-K/A for the fiscal year ended October 31, 2010. Throughout this document we make statements that are classified as "forward-looking."

### Cautionary Statement about Forward-Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements." All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that our management expects, believes or anticipates will or may occur in the future are forward-looking statements. Such forward-looking statements include discussion of such matters as:

- The amount and nature of future capital, development and exploration expenditures;
  - The timing of exploration activities;
- The delivery of certain reports by third party consultants; and
- Business strategies and development of our business plan.

Forward-looking statements also typically include words such as "expects", "anticipates", "targets", "goals", "projects", "intends", "plans", "believes", "seeks", "estimates", "expect", "potential", "could" or similar words suggesting future outcomes. Forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of commodity prices, currency exchange rate fluctuations, uncertainties in cash flow, expected acquisition benefits, mineral exploration, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed under the caption "Risk Factors" in our Annual Report on Form 10-K/A for the fiscal year ended October 31, 2010 and subsequent periodic reports, many of which are beyond our control. Readers are cautioned that forward-looking statements are not guarantees of future performance, and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements.

The Company is under no duty to update any of these forward-looking statements after the date of this report. You should not place undue reliance on these forward-looking statements.

### Cautionary Note

The Company is an exploration stage company and does not currently have any known reserves and cannot be expected to have reserves unless, and until, a feasibility study is completed for the concessions showing proven and probable reserves. There can be no assurance that the Company's concessions contain proven and probable reserves and investors may lose their entire investment in the Company. See "Risk Factors" set forth in the Company's Annual Report on Form 10-K/A for the fiscal year ended October 31, 2010.

### Business Overview

Silver Bull, incorporated in Nevada, is an exploration stage company, engaged in the business of mineral exploration. As of July 31, 2011, the Company owns 26 property concessions consisting of 15,833 hectares (approximately 39,124 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The property concessions are considered one prospect area and are collectively referred to as the "Sierra Mojada Property".

The Company's primary objective is to define sufficient mineral reserves on the Sierra Mojada Property to justify the development of a mechanized mining operation (the "Sierra Mojada Project"). The Company conducts its operations in Mexico through its wholly-owned Mexican subsidiaries, Minera Metalin S.A. de C.V. ("Minera") and Contratistas de Sierra Mojada S.A. de C.V. ("Contratistas"). However, as noted above, the Company has not established any reserves at the Sierra Mojada Property, and is in the exploration stage and may never enter the development or production stage.

On April 16, 2010, the Company completed a merger transaction with Dome Ventures Corporation ("Dome"), whereby Dome became a wholly-owned subsidiary of the Company (the "Merger"). Dome through its subsidiaries holds three exploration licenses in Gabon, West Africa covering approximately 6,000 square kilometers and has entered into a joint venture agreement with AngloGold Ashanti Limited ("AngloGold") on two of its licenses, Ndjole and Mevang. Dome also entered into a second joint venture agreement on the Ogooue license held by AngloGold. Dome's third license, the Mitzic license, has iron ore potential and the Company is currently looking for a joint venture partner on this license. Operations in Gabon are conducted by Dome's subsidiaries Dome Ventures SARL Gabon and African Resources SARL Gabon.

## Current Developments

### Sierra Mojada Property

In January 2011, the board of directors approved an exploration budget of \$9.5 million for the Sierra Mojada Property subject to the Company raising additional capital during the first half of calendar year 2011 to fully fund these exploration activities. As a result of closing a private placement closing with Coeur d'Alene Mines Corporation ("Coeur") on June 2, 2011 for net proceeds of \$4,962,220, the Company expects to have sufficient funds available to complete the \$9.5 million calendar year 2011 exploration program at the Sierra Mojada Property.

The 2011 exploration program at the Sierra Mojada Property is designed to build on the drilling activities of 2010. The aim of the program will be to further define and extend the Shallow Silver Zone. The Shallow Silver Zone is an oxide silver zone (+/- zinc and lead), hosted along an east-west trending fracture-karst system set in a Cretaceous limestone-dolomite sequence. At depth, the Shallow Silver Zone merges with the Red Zinc Zone to form a continuous mineralized body over 4 kilometers in length. The different mobility characteristics of the metals in a low temperature oxide environment has resulted in a crude zonation of the mineralized body creating a silver rich zone the Shallow Silver Zone and a zinc rich zone the Red Zinc Zone.

A 20,000m drill program (10,000m RC and 10,000m Diamond) will continue systematically drilling along the east-west trend of the Shallow Silver Zone. In addition to the drill program, exploration has commenced on the wider Sierra Mojada area. Work is initially focusing on three of the prospects considered to have the best silver potential with a mapping, prospecting and geophysics program to define drill targets as quickly as possible. These drill targets will be followed up by a "scout" drill program using two of the Company's drill rigs. Once the drill program begins on these prospects the mapping and prospecting teams will move onto the new areas to essentially create a pipeline of projects. If results prove favorable, a more substantial program using a contract drilling company will be undertaken in calendar year 2012. A budgeted drill program of 4,000m (approximately 1,000m per prospect) has been set aside for these exploration areas in calendar year 2011.

### Drilling

A subsidiary of Major Drilling Group International Inc. ("Major") was contracted to conduct the 20,000m drill program planned for calendar year 2011 (described above). Major arrived on site February 14, 2011 and after two weeks of setup and drill pad preparation began the drill program. Initial drilling focused on an area that occurs immediately to the north of the eastern end of the Shallow Silver Zone. The best intercept from the initial eight holes that have been reported is hole B11010 which averaged 214 g/t silver, 1.5% zinc, 0.92% lead and 0.7% copper over 38.6m. As of

July 31, 2011 Major had drilled approximately 16,000m during calendar year 2011.

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### Geological Mapping

In addition to drilling the extensions on the Shallow Silver Zone, a regional mapping and prospecting exploration program focused on the Palamos Negros, Dormidos, and San Francisco prospects is underway. The aim of this program is to identify drill targets in these prospects outside of the Shallow Silver Zone which it is expected will be tested during the second half of calendar year 2011. The budget approved in January 2011 by the board allows for a 4,000m drill program to test these areas.

### Airborne Geophysics

A 1,700 line kilometer "ZTEM" airborne geophysics survey was completed on March 22, 2011 by Geotech Ltd. a company based in Ontario, Canada. The survey was increased from the original 1,550 line kilometer plan to ensure complete coverage of several magnetic anomalies previously identified. Ken Witherly of Condor Consulting, Inc. ("Condor"), based out of Denver, Colorado provided QA/QC on the data. The aim of this work is to help better define potential drill targets within the wider Sierra Mojada area.

### New Resource Report

During July 2011 the Company signed a contract with SRK Consulting (Canada) Inc to complete a revised NI43-101 resource report update on the Shallow Silver Zone. This report will build on the resource defined in the NI43-101 resource report released in April 2011 and will incorporate a mixture of historical data from previous work on the property that has been collated and vetted to the end of 2010 as well as drill results to the beginning of August 2011 as part of the drill campaign currently underway. This report is expected to be released in the fall of 2011.

### Gabon Project

To date, three main coherent gold anomalies above 50 parts per billion ("ppb") and over 5km in length and up to 1.5km wide and several smaller anomalous zones up to 2km in length and up to 1km wide have been identified. Background gold values in the region are less than 5 ppb and results above 20 ppb are considered anomalous. Over 25% of the results received to date are above 30 ppb with peak values in excess of 5,000 ppb in the soils. The anomalies appear to have strong structural controls concentrating along mapped or inferred lithological contacts, structural breaks, and fold hinges. There is also a strong spatial relationship of the gold anomalies to a thick graphitic lithological unit in the area that is thought to represent an ideal lithological trap for mineralizing fluids. Initial prospecting in these anomalous zones has identified a number of gold bearing quartz veins, many of which run between 2 g/t to 5 g/t gold.

Exploratory drilling has focused on these gold anomalies. East-west trending drill fences have been positioned to test roughly north-south trending lithological contacts which are considered as the most favorable sites for gold deposition.

Drilling progress has been slower than anticipated due to numerous technical issues. The rocks in the area are extremely deeply weathered and covered by a paleo-ferricrete cap. Below the ferricrete cap, the saprolite can extend for up to 100m in depth before hitting fresh rock. Fluid pumped into the hole during core drilling causes the saprolitic material to liquefy and fail. A change to triple barrel HQ drill rods resulted in a significant increase in core recovery and target drill depths were reached. As of July 31, 2011 34 holes have been drilled totaling 5,423m.

The best intercept from the initial 17 holes reported is hole NDDD0017 which averaged 7.6 g/t gold over 9m. Several of the holes have intersected "zones" with anomalous manganese above 7%, which is interpreted as supergene enrichment within the deep weathering horizon.

Airborne Geophysics

A 5,000 line kilometer VTEM Geophysics survey was completed by Spectrem Air LTD over the Ndjole exploration permit on March 5, 2011. Results show a strong electro-magnetic response that has been strongly folded and deformed.

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## Mapping

Mapping of the main gold prospects continued in the Ndjole and Mevang licences at 1:20,000 scale. Detailed mapping at 1:5000 scale occurred over areas with drilling to better define lithological contacts and local structure.

## Management Changes

On April 16, 2010 the Company and Brian Edgar, the Executive Chairman of the Board of Directors, agreed to the materials terms of his compensation. In September 2010, the Company entered into an employment agreement with Mr. Edgar memorializing the terms of his employment. The employment agreement has a term through April 15, 2012. Mr. Edgar will receive \$7,500 per month in his capacity as Executive Chairman. The employment agreement provides that Mr. Edgar is entitled to a severance payment if the agreement is terminated under certain circumstances including if Mr. Edgar is terminated without cause. On September 2, 2011, the Company entered into a new employment agreement with Mr. Edgar, as the Executive Chairman of the Board of Directors that revised the change in control provision. In the event of a change in control upon Mr. Edgar providing written notice of termination, the Company shall pay his base salary for up to 12 months plus the previous year bonus.

On February 14, 2011, Dr. Nicole Adshead-Bell was appointed to the Board of Directors of the Company as an independent director. Dr. Adshead-Bell is a geologist with a significant amount of experience in the investment banking and financial analysis industries where her primary emphasis has been on mid-sized and junior level natural resources companies and has joined the Company as an independent director. Dr. Adshead-Bell's compensation for her services as a director will be consistent with that of the Company's other non-employee directors. At the time of her appointment Dr. Adshead-Bell was granted a stock option to purchase 200,000 shares of Company common stock exercisable at \$1.09 with an expiration date of five years from the grant date.

Effective September 1, 2010, the Company entered into an employment agreement with Timothy Barry, as Vice President Exploration. Mr. Barry's employment agreement remained in effect upon his appointment to President and Chief Executive Officer on February 25, 2011. On September 2, 2011 (although effective June 1, 2011), the Company entered into a new employment agreement with Mr. Barry, as President and Chief Executive Officer that provides for base compensation of \$CDN 18,000 per month (or \$CDN 216,000 annually) and potential bonus of \$CDN 30,000 if certain performance targets are met. The employment agreement provides that Mr. Barry is entitled to written notice of termination for up to 12 months if Mr. Barry meets certain employment terms and is terminated without cause. In the event of a change in control upon Mr. Barry providing written notice of termination, the Company shall pay his base salary for up to 18 months plus the previous year bonus if Mr. Barry is employed more than 24 months.

On April 15, 2011, Sean Fallis (previously the Company's Vice President of Finance) was appointed the Company's Chief Financial Officer, replacing Robert Devers who had been serving as the Company's Chief Financial Officer. Mr. Fallis is a Chartered Accountant and was formerly the corporate controller of gold producer Rusoro Mining Ltd. Prior to Rusoro Mining Ltd. Mr. Fallis worked with Canadian and United States publically listed companies in the audit and assurance practice of PricewaterhouseCoopers where Mr. Fallis focused on clients in the mining industry. In connection with the employment of Mr. Fallis on February 7, 2011, the Board of Directors granted Mr. Fallis an option to acquire 350,000 shares with an exercise price of \$1.12 and an expiration of five years from the grant date.

On April 20, 2011, Daniel Kunz was appointed to the Board of Directors of the Company. Mr. Kunz has over 30 years of experience in all areas of engineering, management, accounting, finance and operations. Mr. Kunz holds a Masters of Business Administration, Bachelor of Science in Engineering Science and an Associate of Accounting degree. Mr. Kunz has held positions in Ivanhoe Mines (President), MK Gold Company (President & CEO) and Morrison Knudsen Corporation (Vice President and Controller, and as CFO to the Mining Group). Mr. Kunz's compensation for his services as a director will be consistent with that of the Company's other non-employee directors. On June 3, 2011, the Board of Directors granted Mr. Kunz options to acquire 200,000 shares with an exercise price of \$0.70 and an

expiration of five years from the grant date.

On April 20, 2011, Greg Hahn, Wesley Pomeroy and Robert Kramer ceased serving as directors.

On August 4, 2011, the Company entered into an independent contractor agreement with Jason Cunliffe, as the newly appointed Vice President of Exploration. Pursuant to the agreement Mr. Cunliffe will receive \$700 per day for each day actually worked and a potential annual bonus of \$20,000 if certain performance targets are met. The agreement continues on a month-to-month basis and can be terminated by either party with 30 days advance notice. In the event of a change in control upon Mr. Cunliffe providing written notice of termination, the Company shall pay his daily consulting rate for up to 240 days if Mr. Cunliffe is employed more than 36 months.

## Results of Operation

Upon the closing of the Merger on April 16, 2010, Dome became a wholly owned subsidiary of the Company. The financial results from Dome are included in the Company's consolidated statement of operations and consolidated statement of cash flows for the nine months ended July 31, 2011. However, because the Merger did not close until April 2010, Dome's financial results are only included in the Company's consolidated statement of operations and consolidated statement of cash flows for the nine months ended July 31, 2010, for the period from April 16, 2010 to July 31, 2010.

### Three Months Ended July 31, 2011 and July 31, 2010

For the three months ended July 31, 2011, the Company experienced a consolidated net loss of \$3,384,000 or \$0.03 per share, compared to a consolidated net loss of \$4,462,000 or \$0.04 per share during the comparable period last year. The \$1,078,000 decrease in the consolidated net loss is primarily due to the decrease in general and administrative expenses as described below of \$755,000 and a \$346,000 decrease in foreign currency transaction loss, which was largely due to the lower exchange rate fluctuation offsetting the increased intercompany balance as described below.

### Exploration and property holding costs

Exploration and property holding costs decreased \$5,000 or less than 1% to \$2,392,000 for the three months ended July 31, 2011 compared to \$2,397,000 for the comparable period last year. The exploration and property holding costs remained consistent with the prior year as the Company's drill program was active in both periods.

The majority of exploration activities on the Gabon properties will continue to be funded by our joint venture partner, AngloGold. Therefore, significantly all exploration and property holding costs related to the properties in Gabon are reduced by joint venture funding.

### General and Administrative Costs

General and administrative expenses decreased \$755,000 or 57% to \$575,000 for the three months ended July 31, 2011 as compared to \$1,330,000 for the comparable period last year. This decrease was significantly the result of a decrease in personnel costs (including a non-recurring severance payment in 2010) and professional fees as described below.

Stock based compensation was a significant factor for the fluctuations in personnel and directors fees. Overall stock based compensation for stock options increased from \$105,000 for the three months ended July 31, 2010 to \$227,000 for the three months ended July 31, 2011. This was mainly due to pro rata stock based compensation for the additional options granted as a result of the significant management changes since the Merger described previously.

Personnel costs decreased \$618,000 or 71% to \$247,000 for the three months ended July 31, 2011 as compared to \$865,000 for the comparable period last year. The decrease primarily relates to severance of \$677,000 paid to Mr. Bingham and Mr. Kolvoord during the three months ended July 31, 2010. The decrease was offset by higher stock based compensation at \$108,000 in the three months ended July 31, 2011 as compared to \$10,000 during the comparable period in 2010 as described below.

Office and administrative expenses of \$118,000 for the three months ended July 31, 2011 were similar to \$111,000 for the comparable period last year.

Professional fees decreased \$148,000 or 79% to \$39,000 for the three months ended July 31, 2011 as compared to \$187,000 for the comparable period last year. The decrease relates to the additional legal and accounting costs incurred in the prior year as a result of the Merger and application for listing on the Toronto Stock Exchange.

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Directors' fees increased \$64,000 or 62% to \$168,000 for the three months ended July 31, 2011 as compared to \$104,000 for the comparable period last year. The increase was primarily due to a \$24,000 increase in stock based compensation from \$95,000 for the three months ended July 31, 2010 to \$119,000 for the three months ended July 31, 2011 as a result of stock options granted to directors during the current fiscal year and the corresponding pro rata stock based compensation expense.

During the three months ended July 31, 2010, the Company recorded a provision of \$59,000 for uncollectible value-added taxes. The Company continues to aggressively pursue collection of these taxes in Mexico, but has been unsuccessful in recovering these amounts from the Mexican authorities. There was no additional provision recorded during the current period as a result of an analysis of collectability performed by management.

#### Other Income (Expense)

Other Expense decreased \$319,000 to \$410,000 or 56% for the three months ended July 31, 2011 as compared to \$729,000 for the comparable period last year. The increase is primarily due to a \$346,000 decrease in foreign currency transaction loss related to intercompany loans between the Company's corporate entity and the Company's subsidiaries. During the three months ended July 31, 2011, the Mexican Peso depreciated from 11.55 Mexican Pesos per US dollar to 11.75 Mexican Pesos per US dollar whereas during the three months ended July 31, 2010 the Mexican Peso depreciated from 12.28 Mexican Pesos per USD to 12.70 Mexican Pesos per US dollars. The lower exchange rate fluctuation during the three month period ended July 31, 2011 offset the increase in the intercompany loan balance resulting in a lower foreign currency transaction loss in the three months ended July 31, 2011.

#### Nine Months Ended July 31, 2011 and July 31, 2010

For the nine months ended July 31, 2011, the Company experienced a consolidated net loss of \$6,572,000 or approximately \$0.06 per share, compared to a consolidated net loss of \$5,803,000 or approximately \$0.08 per share during the comparable period last year. The \$769,000 increase in the consolidated net loss was due to a \$1,817,000 increase in exploration and property holding costs. This was partially offset by a \$973,000 increase in foreign currency transaction gain, which was largely due to an increase in intercompany balances and greater appreciation of the Mexican peso as described below.

#### Exploration and Property Holding Costs

Exploration and property holding costs increased \$1,817,000 or 48% to \$5,576,000 for the nine months ended July 31, 2011 compared to \$3,759,000 for the same period last year. This increase was primarily due to a significantly expanded exploration program on the Sierra Mojada Property as cash constraints limited the amount of exploration activities in the portion of the nine month period ended July 31, 2010 prior to the Merger previously discussed.

#### General and Administrative Costs

General and administrative expenses of \$2,603,000 for the nine months ended July 31, 2011 were similar to \$2,677,000 for the comparable period last year. However, fluctuations within the general and administrative were more significant as described below.

Stock based compensation was a significant factor for the fluctuations in personnel and directors fees. Overall stock based compensation for stock options increased from \$152,000 for the nine months ended July 31, 2010 to \$888,000 for the nine months ended July 31, 2011 primarily due to pro rata stock based compensation for the additional options granted as a result of the significant management changes since the Merger described previously.

Personnel costs decreased \$99,000 or 8% to \$1,218,000 for the nine months ended July 31, 2011 as compared to \$1,317,000 for the same period last year. This decrease was primarily due to \$677,000 of severance paid to former officers of the Company in the 2010 period as described above. This one-time expense was offset by higher stock based compensation, which increased to \$596,000 in 2011 as compared to \$57,000 during the comparable period in 2010. Also, the Company entered into a severance agreement with the Company's former Chief Financial Officer Robert Devers whereby he received severance payments totaling approximately \$165,000 which was paid in April 2011.

Office and administrative expenses increased \$186,000 or 56% to \$519,000 for the nine months ended July 31, 2011 as compared to \$333,000 for the same period last year. This increase relates to additional listing and exchange fees to maintain the dual listings on NYSE AMEX and TSX, increased office costs during the transition of the Company from Denver to Vancouver. The Denver office has now been closed.

Professional fees decreased \$158,000 or 27% to \$425,000 for the nine months ended July 31, 2011 as compared to \$583,000 for the comparable period last year. The decrease relates to additional legal and accounting costs incurred in the prior year as a result of the Merger and the application for listing on the Toronto Stock Exchange offset by additional costs in the current year associated with the dual listings on the NYSE AMEX and Toronto Stock Exchange.

Directors' fees increased \$211,000 or 95% to \$432,000 for the nine months ended July 31, 2011 as compared to \$221,000 for the same period last year. This increase was primarily due to a \$197,000 increase in stock based compensation to \$292,000 for the nine months ended July 31, 2011 from \$95,000 for the comparable period in the previous year as a result of stock options granted to new directors and the pro rata stock based compensation of stock options previously granted in August 2010.

During the nine months ended July 31, 2010, the Company recorded a provision of \$211,000 for uncollectible value-added taxes. The Company continues to aggressively pursue collection of these taxes in Mexico, but has been unsuccessful in recovering these amounts from the Mexican authorities. There was no additional provision recorded during the current period as a result of an analysis of collectability performed by management.

#### Other Income (Expense)

Other Income increased \$1,012,000 to \$1,637,000 or 162% for the nine months ended July 31, 2011 as compared to \$625,000 for the comparable period last year. The increase is primarily due to a \$973,000 increase in foreign currency transaction gain related to intercompany loans between the Company's corporate entity and the Company's Mexican subsidiaries. During the nine months ended July 31, 2011, the Mexican Peso appreciated from 12.36 Mexican Pesos per US dollar to 11.75 Mexican Pesos per US dollar whereas during the nine months ended July 31, 2010 the Mexican Peso appreciated from 13.10 Mexican Pesos per USD to 12.70 Mexican Pesos per US dollar. Due to the larger exchange rate fluctuation and the increase in the intercompany loan balance, the Company recorded a larger foreign currency transaction gain during the nine months ended July 31, 2011.

#### Material Changes in Financial Condition; Liquidity and Capital Resources

##### Cash Flows

During the nine months ended July 31, 2011, the Company primarily utilized cash and cash equivalents to fund its exploration activities at the Sierra Mojada Property including property concession option purchase agreement payments and general and administrative expenses. Additionally, during the nine months ended July 31, 2011, the Company received \$5,850,000 in proceeds from the issuance of common stock through a private placement to Coeur and the exercise of stock options and warrants. As a result of exploration activities and general and administrative expenses offset by the financing obtained through equity transactions, cash and cash equivalents decreased from \$10,571,000 at October 31, 2010 to \$8,320,000 at July 31, 2011.

Cash flows used in operations for the nine months ended July 31, 2011 was \$7,730,000 as compared to \$6,232,000 for the comparable period in 2010. This increase was mainly due to the significantly higher exploration costs at the Sierra Mojada Property which were partially offset by reduced general and administrative expenses (excluding stock based compensation) as discussed in the results of operations section above. The increase in general and administration expenses had limited impact on cash flows from operations as the majority of the increase related to stock based

compensation, which is a non-cash item.

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Cash flows used in investing activities for the nine months ended July 31, 2011 was \$382,000 as compared to \$1,771,000 in cash flows provided by operations for the comparable period in 2010. During the nine months ended July 31, 2011, the Company purchased \$95,000 of equipment and spent \$496,000 on the acquisition of property concessions as compared to purchases of \$483,000 of equipment and \$373,000 of property concessions in the comparable period in 2010. The cash outflow for the nine months ended July 31, 2010 was offset by cash acquired in the Merger of \$2,619,000. Equipment purchases decreased as the Company is using external contractors for a greater portion of the drilling work on the Sierra Mojada Property.

Cash flows provided by financing activities for the nine months ended July 31, 2011 was \$5,819,000 as compared to \$16,375,000 for the comparable period in 2010. The significant decrease in cash flows is due to the \$14,952,000 of proceeds from the issuance of common stock related to the Dome in the prior year, offset by proceeds of \$4,962,000 for the private placement with Coeur completed in the current period.

#### Capital Resources

As of July 31, 2011, the Company had cash and cash equivalents of \$8,320,000 and working capital of \$6,386,000 as compared to cash and cash equivalents of \$10,571,000 and working capital of \$9,072,000 as of October 31, 2010. The decrease in the Company's liquidity and working capital were primarily the result of cash used by operating and investing activities including exploration work and acquisition of additional concessions which were partially offset by proceeds received from financing activities including the issuance of common stock and proceeds received on the exercise of warrants. The accounts payable and accrued liabilities at July 31, 2011 increased as a result of the additional exploration work on the Sierra Mojada Property and timing of payments.

Since inception, the Company has relied primarily upon proceeds from private placements of its equity securities and warrant exercises as its primary sources of financing to fund its operations. We anticipate that we will continue to rely on sales of our securities in order to continue to fund our business operations. Issuances of additional shares will result in dilution to our existing stockholders. There is no assurance that we will be able to complete any additional sales of our equity securities or that we will be able arrange for other financing to fund our planned business activities.

#### Capital Requirements and Liquidity; Need for Subsequent Funding

The Company's management and Board of Directors monitor the Company's overall costs, expenses, and financial resources and, if necessary, will attempt to adjust the Company's planned operational expenditures in an attempt to ensure we have sufficient operating capital. We continue to evaluate our costs and planned expenditures including for our Sierra Mojada Property.

The continued exploration of the Sierra Mojada Property will require significant amounts of additional capital. The Company believes it has sufficient capital on hand to fund the calendar 2011 exploration program at the Sierra Mojada Property described previously. However, the continued exploration of the Sierra Mojada Property ultimately will require the Company to raise additional capital, identify other sources of funding, or identify another strategic transaction. The on-going uncertainty and volatility in the global financial and capital markets have limited the availability of funding. Debt or equity financing may not be available to us on acceptable terms, if at all. Equity financing, if available, may result in substantial dilution to existing stockholders. If we are unable to fund future operations by way of financing, including public or private offerings of equity or debt securities, our business, financial condition and results of operations will be adversely impacted.



Once the Company has gathered sufficient drilling data on the silver mineralization, the Company, subject to having sufficient financial resources, will revisit the economics of the Sierra Mojada Project via a feasibility study. Following the completion of the feasibility study, the Company would then proceed to the project financing phase, and then the construction phase, which would entail construction of a mine and related infrastructure pursuant to a mine plan developed specifically for the Company's concessions, and construction of an extraction plant to extract metal from the ore that would be mined. In order to proceed with the construction phase, the Company would need to rely on additional equity and/or debt financing, or the Company may seek joint venture partners or other alternative financing sources.

#### Off Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

#### Critical Accounting Policies

The critical accounting policies are defined in the Company's Form 10-K/A for the year ended October 31, 2010 filed on May 20, 2011 except as follows to further clarify the accounting policy.

#### Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rates during the period. Exchange differences arising on translation are disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations. Intercompany transactions and balances with the Company's Mexican and Gabonese subsidiaries are considered to be short-term in nature and accordingly all foreign currency transaction gains and losses on intercompany loans are included in the consolidated statement of operations.

On July 7, 2011, the Company agreed to convert \$13.4 million of intercompany loans to future capital increases. Subsequent to July 7, 2011, the Company no longer recognizes foreign currency transaction gains or losses on the intercompany loans which were converted.

#### Recent Accounting Pronouncements

The Company does not expect any recent accounting pronouncements to have a material effect on the Company's financial position, results of operations, or cash flows.

In January 2010, the FASB issued ASU No. 2010-06 which provides amendments to ASC Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows. The disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The Company does not expect that the full adoption of ASU No. 2010-06 will have a material effect on the Company's financial position, results of operations or cash flows.

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 will not have a significant impact on the presentation of the Company’s consolidated financial statements.

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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 U.S. GAAP and IFRSs. 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 will not have a significant impact on the Company's consolidated financial statements.

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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Foreign Currency Exchange Risk

Certain purchases of labor, operating supplies and capital assets are denominated in Canadian Dollars ("CDN"), Mexican Pesos or other currencies. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Mexican Peso or CDN against the US dollar may result in an increase in operating expenses and capital costs in US dollar terms. To reduce this risk during the nine months ended July 31, 2011, the Company maintained minimum cash balances in Mexican Pesos and completed the majority of its purchases, including capital expenditures relating to the Sierra Mojada Property, in US Dollars. We currently do not engage in any currency hedging activities.

Subsequent to July 31, 2011, the Company transferred the majority of its US dollar cash balances into CDN as the Company expects the appreciation of the CDN against the US dollar in the short-term. The Company expects to convert the CDN cash balances as needed into US dollars to pay for US dollar expenditures and to use CDN cash balances for CDN expenditures as the Company maintains its Corporate office in Canada.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures.

As of July 31, 2011, we have carried out an evaluation under the supervision of, and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended. Based on the evaluation as of July 31, 2011, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e)) under the Securities Exchange Act of 1934 were effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### (b) Changes in Internal Controls Over Financial Reporting

During the quarter ended July 31, 2011 there have not been any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II – OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

None.

### Item 1A. RISK FACTORS

There were no material changes from the risk factors included in our Form 10-K/A for the year ended October 31, 2010.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND PROCEEDS

#### Recent Sales of Unregistered Securities

All sales of unregistered equity securities that occurred during the period covered by this report, and through September 2, 2011, have been previously reported in our Quarterly Report on Form 10-Q for the period ended April 30, 2011 except for the following:

On July 25, 2011, warrants to acquire 52,000 shares of the Company's common stock were exercised at an average exercise price of \$0.50 per share resulting in cash proceeds to the Company of \$26,000. The shares of common stock were issued in reliance on the exemptions from registration contained in Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. No commissions or other remuneration were paid for this issuance.

### Item 3. DEFAULT UPON SENIOR SECURITIES

None.

### Item 4. [RESERVED]

### Item 5. OTHER INFORMATION

#### Entry Into a Material Definitive Agreement

Effective September 1, 2010, the Company entered into an employment agreement with Timothy Barry, as Vice President Exploration. Mr. Barry's employment agreement remained in effect upon his appointment to President and Chief Executive Officer on February 25, 2011. On September 2, 2011 (although effective June 1, 2011), the Company entered into a new employment agreement with Mr. Barry, as President and Chief Executive Officer that provides for base compensation of \$CDN 18,000 per month (or \$CDN 216,000 annually) and potential bonus of \$CDN 30,000 if certain performance targets are met. The employment agreement provides that Mr. Barry is entitled to written notice of termination for up to 12 months if Mr. Barry meets certain employment terms and is terminated without cause. In the event of a change in control upon Mr. Barry providing written notice of termination, the Company shall pay his base salary for up to 18 months plus the previous year bonus if Mr. Barry is employed more than 24 months.

On September 2, 2011, the Company entered into a new employment agreement with Mr. Edgar, as the Executive Chairman of the Board of Directors that revised the change in control provision. In the event of a change in control upon Mr. Edgar providing written notice of termination, the Company shall pay his base salary for up to 12 months plus the previous year bonus.

Mine Safety Disclosures

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Act”) requires the operators of mines to include in each periodic report filed with the Securities and Exchange Commission certain specified disclosures regarding the Company’s history of mine safety. The Company is currently in the exploration phase and does not operate mines at any of its properties, and as such is not subject to disclosure requirements regarding mine safety that were imposed by the Act.

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## Item 6. EXHIBITS

| Exhibit Number | Exhibit Description  | Incorporated by Reference |          |         | Filed Herewith |
|----------------|--|---------------------------|----------|---------|----------------|
|                |  | Form                      | Date     | Exhibit |                |
| 3.1.1          | Restated Articles of Incorporation.  | 10-K                      | 10/31/10 | 3.1     |                |
| 3.1.2          | Certificate of Amendment to Articles of Incorporation  | 8-K                       | 4/20/11  | 3.1     |                |
| 3.1.3          | Bylaws   | 10-K                      | 10/21/10 | 3.1.6   |                |
| 10.1           | Employment Agreement with Timothy Barry  |                           |          |         | X              |
| 10.2           | Employment Agreement with Brian Edgar  |                           |          |         | X              |
| 14             | Code of Ethics   | 10-KSB                    | 1/31/07  | 14      |                |
| 31.1           | Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |                           |          |         | X              |
| 31.2           | Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |                           |          |         | X              |
| 32.1           | Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.               |                           |          |         | X              |
| 32.2           | Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.               |                           |          |         | X              |
| 101.INS*       | XBRL Instance Document   |                           |          |         | X              |
| 101.SCH*       | XBRL Schema Document   |                           |          |         | X              |
| 101.CAL*       | XBRL Calculation Linkbase Document   |                           |          |         | X              |
| 101.LAB*       | XBRL Labels Linkbase Document  |                           |          |         | X              |

101.PRE\* XBRL Presentation Linkbase Document

X

\* Submitted Electronically Herewith. Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the three and nine months ended July 31, 2011 and 2010, (ii) Consolidated Balance Sheets at July 31, 2011 and October 31, 2010, (iii) Consolidated Statements of Cash Flows for the nine months ended July 31, 2011 and 2010, and (iv) Notes to Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILVER BULL RESOURCES, INC.

Dated: September 6, 2011

By

/s/ Timothy Barry  
Timothy Barry  
President and Principal Executive  
Officer

Dated: September 6, 2011

By

/s/ Sean Fallis  
Sean Fallis,  
Chief Financial Officer and Principal  
Accounting  
Officer

