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**SUPERIOR MINING INTERNATIONAL CORPORATION**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JULY 31, 2015 AND 2014

*(Expressed in Canadian dollars)*

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## **Independent Auditor's Report**

### **To the Shareholders of Superior Mining International Corporation**

We have audited the accompanying consolidated financial statements of Superior Mining International Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2015 and July 31, 2014, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Superior Mining International Corporation and its subsidiaries as at July 31, 2015 and July 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### **Emphasis of matter**

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Superior Mining International Corporation to continue as a going concern.

**"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, British Columbia  
November 30, 2015**

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Expressed in Canadian dollars)*

	July 31, 2015	July 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 4,922	\$ 6,258
Receivables (note 4)	4,165	2,734
Prepaid expenses	<u>2,231</u>	<u>5,164</u>
<b>Total current assets</b>	<u>11,318</u>	<u>14,156</u>
<b>Non-current assets</b>		
Exploration and evaluation assets (note 5)	<u>2,036,094</u>	<u>1,838,558</u>
<b>Total assets</b>	<u>\$ 2,047,412</u>	<u>\$ 1,852,714</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	\$ 1,310,525	\$ 1,024,230
Advance from directors (note 10)	45,635	-
Loans payable (note 10)	94,286	-
Liability portion of convertible debentures (notes 7 and 10)	<u>265,131</u>	<u>-</u>
<b>Total current liabilities</b>	<u>1,715,577</u>	<u>1,024,230</u>
<b>Non-current liabilities</b>		
Loans payable (note 10)	-	80,000
Liability portion of convertible debentures (notes 7 and 10)	<u>-</u>	<u>244,302</u>
<b>Total liabilities</b>	<u>1,715,577</u>	<u>1,348,532</u>
<b>Equity</b>		
Capital stock (note 8)	19,025,731	19,025,731
Reserves (note 8)	420,943	406,452
Equity portion of convertible debentures (note 7)	4,664	4,664
Deficit	<u>(19,140,362)</u>	<u>(18,955,756)</u>
Capital and reserve attributable to shareholders of Superior Mining International Corporation	310,976	481,091
Non-controlling interest	<u>20,859</u>	<u>23,091</u>
<b>Total equity</b>	<u>331,835</u>	<u>504,182</u>
<b>Total liabilities and equity</b>	<u>\$ 2,047,412</u>	<u>\$ 1,852,714</u>

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

Approved and authorized for issue on November 30, 2015 on behalf of the Board of Directors:

<u>“Brent Butler”</u>	Director	<u>“Cyrus Driver”</u>	Director
Brent Butler		Cyrus Driver	

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
*(Expressed in Canadian dollars)*

FOR THE YEAR ENDED	July 31, 2015	July 31, 2014
<b>EXPENSES</b>		
Accretion of convertible debentures and accrued interest (notes 7 and 10)	\$ 33,887	\$ 31,474
Bank charges and interest	285	307
Consulting (note 10)	69,206	74,150
Filing and transfer agent fees	13,704	16,763
Financing fees	-	3,200
Foreign exchange loss (gain)	(1,733)	8,407
Office, telephone and printing	1,985	7,296
Professional fees (note 10)	55,013	96,851
Share-based payments (notes 8 and 10)	<u>14,491</u>	<u>48,609</u>
<b>Loss and comprehensive loss for the year</b>	<b>\$ (186,838)</b>	<b>\$ (287,057)</b>
<b>Loss and comprehensive loss attributable to:</b>		
Shareholders of Superior Mining International Corporation	\$ (184,606)	\$ (285,755)
Non-controlling interests	<u>(2,232)</u>	<u>(1,302)</u>
	<b>\$ (186,838)</b>	<b>\$ (287,057)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>	<b>57,886,479</b>	<b>57,577,876</b>

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian dollars)*

	Year Ended July 31, 2015	Year Ended July 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (186,838)	\$ (287,057)
Items not affecting cash:		
Unrealized foreign exchange	(1,733)	8,407
Share-based payments	14,491	48,609
Financing fees	-	3,200
Accretion of convertible debentures and accrued interest	33,887	30,246
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(1,431)	9,206
Decrease (increase) in prepaid expenses	2,933	(2,922)
Increase in accounts payable and accrued liabilities	<u>117,404</u>	<u>141,362</u>
Net cash used in operating activities	<u>(21,287)</u>	<u>(48,949)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditures	<u>(27,135)</u>	<u>(78,628)</u>
Net cash used in investing activities	<u>(27,135)</u>	<u>(78,628)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advance from related parties	<u>45,635</u>	<u>80,000</u>
Net cash provided by financing activities	<u>45,635</u>	<u>80,000</u>
<b>Foreign exchange effect on cash</b>	<u>1,451</u>	<u>(2,237)</u>
<b>Change in cash for the year</b>	(1,336)	(49,814)
<b>Cash, beginning of year</b>	<u>6,258</u>	<u>56,072</u>
<b>Cash, end of year</b>	<u>\$ 4,922</u>	<u>\$ 6,258</u>

**Supplemental disclosure with respect to cash flows (note 9)**

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Expressed in Canadian dollars)*

	Capital Stock		Reserves				Equity Portion of Convertible Debentures	Deficit	Total	Non- controlling Interest	Total Equity
	Number	Amount	Options	Warrants	Total Reserves						
<b>Balance as at August 1, 2013</b>	57,566,479	\$ 19,022,531	\$ 357,990	\$ 3,922	\$ 361,912	\$ 4,664	\$ (18,674,070)	\$ 715,037	\$ 24,393	\$ 739,430	
Share-based payments	-	-	48,609	-	48,609	-	-	48,609	-	48,609	
Options expired	-	-	(4,069)	-	(4,069)	-	4,069	-	-	-	
Bonus shares issued	320,000	3,200	-	-	-	-	-	3,200	-	3,200	
Loss for the year	-	-	-	-	-	-	(285,755)	(285,755)	(1,302)	(287,057)	
<b>Balance as at July 31, 2014</b>	57,886,479	\$ 19,025,731	\$ 402,530	\$ 3,922	\$ 406,452	\$ 4,664	\$ (18,955,756)	\$ 481,091	\$ 23,091	\$ 504,182	
<b>Balance as at August 1, 2014</b>	57,886,479	\$ 19,025,731	\$ 402,530	\$ 3,922	\$ 406,452	\$ 4,664	\$ (18,955,756)	\$ 481,091	\$ 23,091	\$ 504,182	
Share-based payments	-	-	14,491	-	14,491	-	-	14,491	-	14,491	
Loss for the year	-	-	-	-	-	-	(184,606)	(184,606)	(2,232)	(186,838)	
<b>Balance as at July 31, 2015</b>	57,886,479	\$ 19,025,731	\$ 417,021	\$ 3,922	\$ 420,943	\$ 4,664	\$ (19,140,362)	\$ 310,976	\$ 20,859	\$ 331,835	

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Expressed in Canadian dollars)*  
JULY 31, 2015 AND 2014

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company's head, registered and records office address is 202 - 837 West Hastings Street, Vancouver, BC, Canada, V6C 3N6. The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the amounts comprising exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at July 31, 2015, the Company had an accumulated deficit of \$19,140,362 (2014 - \$18,955,756); a working capital deficiency of \$1,704,259 (2014 - \$1,010,074) and has not generated revenues from operations. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its exploration and evaluation assets, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

**2. BASIS OF PRESENTATION**

**Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company's reporting year ended July 31, 2015.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PRESENTATION (cont'd...)**

**Basis of consolidation and presentation**

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

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

The consolidated financial statements include the financial statements of the parent and its subsidiaries listed in the following table:

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Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Superior Mining South Africa (Pty) Corporation	South Africa	100%	Mineral exploration
Owl Eye Trading 71 (Pty) Ltd.	South Africa	100%	Mineral exploration
Turquoise Moon Trading 403 Pty Ltd. ("TM")	South Africa	87%	Mineral exploration
Middelvlei Gold & Investments (Pty) Ltd. ("MGI")	South Africa	50%	Mineral exploration

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**Significant accounting judgments and critical estimates**

The preparation of these consolidated financial statements in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these consolidated financial statements.

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- i) Going concern risk assessment (Note 1);
- ii) Determination of functional currency; and
- iii) Recoverability of the carrying value of the Company's exploration and evaluation assets.



**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PRESENTATION (cont'd...)**

**Significant accounting judgments and critical estimates (cont'd...)**

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

- i) *Share-based payments* – The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.
- ii) *Convertible debentures* – Calculation of the value ascribed to the liability portion and equity portion of convertible debentures is complex and requires significant estimates, specifically with respect to determination of a market rate of interest (i.e., the cost of similar liability without a conversion option). The fair value of each component on initial recognition is highly sensitive to this rate and a significant change in this assumption might have a material impact on the consolidated financial statements.
- iii) *Deferred income taxes* - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency translation**

The functional currency for each of the Company's subsidiaries is the currency in which funds from financing activities are generated. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates.

The functional currency of Superior Mining International Corporation, the parent entity, is the Canadian dollar, which is also the presentation currency of our consolidated financial statements. The functional currency of the Company's foreign subsidiaries is also the Canadian dollar.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates in effect at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

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

**Financial instruments**

Financial assets:

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities:

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities* - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company has classified its cash as *Fair value through profit or loss*. The Company's accounts payable and accrued liabilities, advance from directors, loans payable and liability portion of convertible debentures are classified as *Other financial liabilities*.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Expressed in Canadian dollars)*  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Convertible debentures**

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

**Exploration and evaluation assets**

Pre-exploration costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of loss and comprehensive loss.

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

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

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Interests in Joint Arrangements**

A joint arrangement can take the form of a joint venture or joint operation. All joint arrangements involve a contractual arrangement that establishes joint control, which exists only when decisions about the activities that significantly affect the returns of the investee require unanimous consent of the parties sharing control. A joint operation is a joint arrangement in which we have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which we have rights to only the net assets of the arrangement.

Joint ventures are accounted for in accordance with the policy "Investments in Associates and Joint Ventures." Joint operations are accounted for by recognizing our share of the assets, liabilities, revenue, expenses and cash flows of the joint operation in our consolidated financial statements.

**Investments in Associates and Joint Ventures**

Investments over which we exercise significant influence and which we do not control or jointly control are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. Investments in joint ventures as determined in accordance with the policy "Interests in Joint Arrangements" are also accounted for using the equity method.

The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for our proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the associate's or joint venture's net assets such as dividends.

Our proportionate share of the associate's or joint venture's profit or loss and other comprehensive income or loss is based on its most recent financial statements. Adjustments are made to align any inconsistencies between our accounting policies and our associate's or joint venture's policies before applying the equity method. Adjustments are also made to account for depreciable assets based on their fair values at the acquisition date of the investment and for any impairment losses recognized by the associate or joint venture.

If our share of the associate's or joint venture's losses equals or exceeds our investment in the associate or joint venture, recognition of further losses is discontinued. After our interest is reduced to zero, additional losses will be provided for and a liability recognized only to the extent that we have incurred legal or constructive obligations to provide additional funding or make payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, we resume recognizing our share of those profits only after our share of the profits equals the share of losses not recognized.

At each reporting date, we consider whether there is objective evidence of impairment in associates and joint ventures. If there is such evidence, we determine if there is a need to record an impairment in relation to the associate or joint venture.

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

**Provision for environmental rehabilitation**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. As at July 31, 2015, there was no material provision for environmental rehabilitation.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years ended July 31, 2015 and 2014, this calculation proved to be anti-dilutive. Basic and diluted loss per share is calculated using the weighted-average number of common shares outstanding during the year.

**Share-based payments**

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

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period using the graded method. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based payment is transferred to accumulated losses (deficit). The Company estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate.

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

**Share issuance costs**

Costs directly identifiable with the raising of capital are charged directly to capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

**Valuation of warrants**

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. The fair value attributed to the warrants, if any, is recorded in reserves.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes**

Income tax on the statement of loss and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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

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

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

New accounting standards and recent pronouncements

The following new and amended standards adopted by the Company on August 1, 2014 did not result in a significant impact on the Company's consolidated financial statements:

- Amendments to IAS 32 - Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. This standard becomes effective for annual periods beginning on or after January 1, 2014.
- Amendments to IAS 36 – Impairment of Assets, clarifies the recoverable amount disclosures for non-financial assets, including additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after January 1, 2014.
- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosures of Interests in Other Entities* and IAS 27, *Separate Financial Statements*. The amendments provide for the definition of an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity. The amendments also deal with the disclosures required and preparation of separate financial statements of an investment entity. These amended standards are effective for annual periods beginning on or after January 1, 2014.
- Amendments to IAS 24 - The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

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

- The IASB issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“Obligating Event”). IFRIC 21 clarifies that the Obligating Event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.
- Amendments to IFRS 2- *Share based payment*. The amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendment is effective for share based payment transactions for which the grant date is on or after July 1, 2014.

New or revised standards and amendments to existing standards not yet effective

The Company has not applied the following new or revised standards and amendments that have been issued but are not yet effective for the Company’s July 31, 2015 reporting period:

- New standard IFRS 9, Financial Instruments, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, “Financial Instruments: Recognition and Measurement.” IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2018.

The Company is currently assessing the impact that these standards will have on the Company’s consolidated financial statements. The Company plans to adopt these standards as soon as they become effective for the Company’s reporting period.

**4. RECEIVABLES**

The Company’s receivables arise from the following sources: Goods and Services Tax (“GST”) receivable due from Canadian government taxation authorities, VAT receivable and income tax receivable from the South African government. These are broken down as follows:

	July 31, 2015	July 31, 2014
GST receivable	\$ 3,264	\$ 2,268
VAT receivable	<u>901</u>	<u>466</u>
	<u>\$ 4,165</u>	<u>\$ 2,734</u>

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**5. EXPLORATION AND EVALUATION ASSETS**

During the year ended July 31, 2015, the following exploration and evaluation expenditures were incurred:

	Mangalisa, South Africa	Red Castle, Australia	Total
Balance, August 1, 2014	\$ 1,524,743	\$ 313,815	\$ 1,838,558
Exploration expenditures:			
Geological and consulting	121,352	76,184	197,536
Balance, July 31, 2015	\$ 1,646,095	\$ 389,999	\$ 2,036,094

During the year ended July 31, 2014, the following exploration and evaluation expenditures were incurred:

	Mangalisa, South Africa	Red Castle, Australia	Total
Balance, August 1, 2013	\$ 1,407,478	\$ 181,834	\$ 1,589,312
Exploration expenditures:			
Geological and consulting	116,289	131,872	248,161
Travel	976	109	1,085
	117,265	131,981	249,246
Balance, July 31, 2014	\$ 1,524,743	\$ 313,815	\$ 1,838,558

**Mangalisa, South Africa**

During fiscal 2008, the Company was granted a lease, giving it the right to explore a property in the eastern part of the Free State Goldfield, near the village of Riebeekstad, South Africa.

The Company executed an Earn-in Agreement on December 13, 2012 with Ibhubsei Capital (“Ibhubesi”), a private Company pursuant to which Ibhubesi can acquire up to a 67% interest in the Company’s Mangalisa project by paying the Company two cash payments totaling US\$2.5M and spending US\$5M on exploration within a 24 month period. During the year ended July 31, 2014, the agreement was terminated.

During the year ended July 31, 2014, the Company executed a Sale Agreement with Castlehill Trading CC (“Castlehill”), a private company based in Johannesburg, South Africa for the purchase of the Company’s ownership in Mangalisa. The Agreement is for complete purchase of all shares of TM, a subsidiary of the Company that holds 87% ownership of Managalisa for a total sum of USD \$3 million. The deal was terminated during fiscal 2014.

On May 19, 2015, the Company executed a Memorandum of Agreement with Rodney Tucker, Businessman from Johannesburg, South Africa. Terms of the agreement are payment of US\$2.85M for the purchase of 100% of the South African subsidiary Superior Mining South Africa (Pty) Corporation’s shares and the claims of Mangalisa Project. As at July 31, 2015, the deal with Rodney Tucker has not closed.



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

**Redcastle, Australia**

During the year ended July 31, 2012, the Company entered into a Heads of Agreement with Reinhold Resources Ltd. to earn-in a 51% interest (earned) in the Redcastle Project located in the Western Australia. The Company is committed to exploration expenditures of AUD\$200,000 on the project before May 4, 2014 (incurred).

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payables and accrued liabilities for the Company are broken down as follows:

	July 31, 2015	July 31, 2014
Trade payables	\$ 369,321	\$ 309,289
Due to related parties (note 10)	925,164	695,561
Accrued liabilities	<u>16,040</u>	<u>19,380</u>
<b>Total</b>	<b>\$ 1,310,525</b>	<b>\$ 1,024,230</b>

All payables and accrued liabilities for the Company fall due within the next 12 months.

**7. CONVERTIBLE DEBENTURES**

	July 31, 2015	July 31, 2014
Face value of convertible debentures	\$ 200,000	\$ 200,000
Less: Equity portion of convertible debentures	(6,246)	(6,246)
Add: Accretion and coupon interest	<u>71,377</u>	<u>50,548</u>
Liability portion of convertible debentures	265,131	244,302
Less: current liability portion of convertible debentures	<u>(265,131)</u>	<u>-</u>
<b>Non-current liability portion of convertible debentures</b>	<b>\$ -</b>	<b>\$ 244,302</b>

During the year ended July 31, 2013, the Company issued convertible debentures for an aggregate principal amount of \$200,000 of which \$130,000 was received from directors of the Company. The debentures bear interest of 12% per annum, payable upon maturity at November 28, 2015 (extended during the year ended July 31, 2014, from the original maturity date at November 28, 2013) and may be converted to common shares at anytime at a conversion of \$0.10 per common share. Each \$100 debenture included 1,000 share purchase warrants exercisable at \$0.10 for a period of one year. These warrants were valued at \$3,922 using the Black-Scholes option pricing model.

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**7. CONVERTIBLE DEBENTURES (cont'd...)**

The convertible debentures have been classified into its separate debenture liability and equity portions in the Company's consolidated financial statements by the fair value method using an effective interest of 16% when valuing the liability first. This resulted in an initial amount of \$193,754 being allocated to the liability portion and \$4,664 being allocated to the equity portion, net of deferred income tax recovery of \$1,582. For the year ended July 31, 2015, accretion expense and coupon interest related to the liability component of the convertible debenture is \$20,829 (2014 - \$31,474), bringing the total accumulated accretion and coupon interest to \$71,377 (2014 - \$50,548).

**8. CAPITAL STOCK AND RESERVES**

a) Authorized share capital:

Unlimited common voting shares without par value.

b) Issued share capital:

During the year ended July 31, 2015, the Company did not have any share activities.

During the year ended July 31, 2014, the Company issued 320,000 shares to lenders of the Company at a fair value of \$0.01 per share in consideration for an \$80,000 loan made to the Company (Note 10).

c) Stock options:

The Company has a fixed stock option plan whereby a maximum of 10,050,099 of the issued common shares are reserved for issuance under the plan. The options can be granted for a maximum term of five years and pricing and vesting are determined by the board of directors.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Year Ended July 31, 2015		Year Ended July 31, 2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	9,880,000	\$ 0.10	7,780,000	\$ 0.11
Granted	-	-	2,200,000	0.05
Expired	-	-	(100,000)	0.05
Balance at end of year	9,880,000	\$ 0.10	9,880,000	\$ 0.10
Number of options exercisable	9,330,000	\$ 0.10	7,105,000	\$ 0.11
Weighted average contractual life remaining	2.46 years			

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**8. CAPITAL STOCK AND RESERVES (cont'd ...)**

c) Stock options (cont'd ...):

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

- i) recorded a share-based payment expense of \$14,491 for options vested.

During the year ended July 31, 2014, the Company:

- i) recorded a share-based payment expense of \$48,609 for options vested;
- ii) granted 2,200,000 stock options with a fair value of \$32,524 estimated using the Black-Scholes option pricing model. The options have various vesting dates. The weighted average fair value per option granted during the year was \$0.01; and
- iii) recorded a transfer of fair value of \$4,069 to deficit for 100,000 options expired.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	July 31, 2015	July 31, 2014
Share price	-	\$0.02
Risk-free interest rate	-	1.42%
Expected life of options	-	4.25 years
Annualized volatility	-	132%
Dividend rate	-	0.00%
Forfeiture rate	-	0.00%

d) Warrants:

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Year Ended July 31, 2015		Year Ended July 31, 2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance at beginning of year	2,000,000	\$ 0.10	2,000,000	\$ 0.10
Balance at end of year	2,000,000	\$ 0.10	2,000,000	\$ 0.10

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**8. CAPITAL STOCK AND RESERVES (cont'd ...)**

As at July 31, 2015, the following stock options and warrants were outstanding:

	Number of Stock options /Warrants	Exercise Price	Expiry Date
<b>Stock options</b>	3,180,000 *	\$ 0.12	September 29, 2016
	4,500,000	0.10	May 22, 2018
	<u>2,200,000</u>	0.05	March 16, 2019
	9,880,000		
<b>Warrants</b>	2,000,000**	\$ 0.10	November 28, 2015

\*1,000,000 stock options were cancelled subsequent to year end.

\*\*all warrants expired unexercised subsequent to year end.

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

	July 31, 2015	July 31, 2014
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

During the year ended July 31, 2015, the Company had the following significant non-cash investing and financing activities:

- a) included in accounts payable and accrued liabilities \$624,077 (2014 - \$453,958) of exploration and evaluation expenditures.
- b) fair value of options expired/cancelled of \$nil (2014 - \$4,069); and
- c) fair value of \$nil (2014 - \$3,200) of bonus shares issued.

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**10. RELATED PARTY TRANSACTIONS**

Amounts paid or accrued to related parties are as follows:

		For the Year Ended July 31, 2015	For the Year Ended July 31, 2014
<b>Key Management:</b>			
A director of a subsidiary of the Company	Consulting	\$ 56,079	\$ 49,072
Directors and officers	Share-based payments <sup>(i)</sup>	<u>13,780</u>	<u>41,163</u>
		<u>\$ 69,859</u>	<u>\$ 90,235</u>
<b>Related Parties:</b>			
A firm in which the CFO is a partner	Professional fees	\$ 38,800	\$ 69,500
A company owned by the CEO	Exploration expenditures	<u>135,000</u>	<u>153,000</u>
		<u>\$ 173,800</u>	<u>\$ 222,500</u>

(i) Share-based payment is the fair value of options granted and vested to key management personnel.

The amounts due to the related parties included in accounts payables and accrued liabilities are as follows:

	July 31, 2015	July 31, 2014
Due to a firm in which the CFO is a partner	\$ 286,006	\$ 246,566
Due to a director of a subsidiary of the Company	131,224	79,762
Due to a company owned by the CEO	<u>507,934</u>	<u>369,233</u>
	<u>\$ 925,164</u>	<u>\$ 695,561</u>

**Other related party transactions**

During the year ended July 31, 2015, the Company received advances of \$45,635 from directors of the Company for working capital purposes.

During the year ended July 31, 2014, the Company received an aggregate amount of \$80,000 from the directors of the Company for loans bearing interest at a rate of 15% compounded monthly maturing June 25, 2016 for working capital purposes. In consideration for loans, the Company issued 320,000 common shares at a fair value of \$0.01 per share.

For the year ended July 31, 2015, total interest expense related to the loans is \$13,058 (2014 - \$1,229).

During the year ended July 31, 2013, the Company received an aggregate amount of \$130,000 from the directors of the Company for convertible debentures (Note 7).

**11. FINANCIAL INSTRUMENTS AND RISK**

The Company's financial instruments consist of cash, advance from directors, loans payable, accounts payable and accrued liabilities and liability portion of convertible debentures. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

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**11. FINANCIAL INSTRUMENTS AND RISK** (cont'd...)

**Concentration of credit risk**

Financial instruments that potentially subject the Company to a significant concentration of credit risk due to the potential for counterparties to default on their contractual obligations consist primarily of receivables. The maximum potential loss on these financial instruments is equal to the carrying amounts of these items. The Company limits its exposure to credit loss by dealing with counterparties it believes to be creditworthy.

**Fair value**

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms.

Financial instruments measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as either “Level 1” Unadjusted quoted prices in active markets for identical assets or liabilities; “Level 2” Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and, “Level 3” Inputs that are not based on observable market data.

Financial instruments measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as follows:

	July 31, 2015			July 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash	\$ 4,922	\$ -	\$ -	\$ 6,258	\$ -	\$ -

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

*Liquidity risk*

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2015, the Company had current assets of \$11,318 (2014 - \$14,156) to settle current liabilities of \$1,715,577 (2014 - \$1,024,230). The Company is planning additional financings in the near term to raise working capital to finance its ongoing operations.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company’s obligations are not considered significant.

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**11. FINANCIAL INSTRUMENTS AND RISK** (cont'd...)

(b) Foreign currency risk

The Company has monetary assets and liabilities denominated in foreign currencies and non-monetary assets represented by mineral exploration interests in Australian dollars (AUD\$) and South African rand (ZAR\$). The Company could accordingly be at risk for foreign currency fluctuations.

As at July 31, 2015, AUD\$ amounts were converted at a rate of AUD\$1 to \$0.9565 Canadian dollars and the Company had the following financial instruments in AUD\$:

	CAD \$ equivalent	AUD\$
Accounts payable and accrued liabilities	\$ 94,493	\$ 98,791

As at July 31, 2015, ZAR\$ amounts were converted at a rate of ZAR\$1 to \$0.1033 Canadian dollars and the Company had the following financial instruments in ZAR\$:

	CAD \$ equivalent	ZAR\$
Accounts payable and accrued liabilities	\$ 218,541	\$ 2,115,595

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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**12. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets. Geographic information is as follows:

	July 31, 2015	July 31, 2014
Exploration and evaluation assets		
South Africa	\$ 1,646,095	\$ 1,524,743
Australia	<u>389,999</u>	<u>313,815</u>
	\$ 2,036,094	\$ 1,838,558

**13. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (i.e. capital stock, reserves, equity portion of convertible debentures and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's policy remains unchanged from the prior year.

**14. INCOME TAXES**

For the year ended July 31,	2015	2014
Loss before taxes for the year	\$ (186,838)	\$ (287,057)
Canadian federal and provincial income tax rates	26%	26%
Expected income tax recovery based on the above rates	\$ (48,578)	\$ (74,635)
Impact of change in tax rates	-	(110,136)
Impact of different foreign statutory tax rates	(327)	(1,571)
Items not deductible for tax purposes	8,536	14,696
Expiry of loss-carryforwards	132,154	96,175
Change in unrecognized tax benefits	<u>(91,785)</u>	<u>75,471</u>
Deferred income tax recovery	\$ -	\$ -



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**14. INCOME TAXES (cont'd...)**

The significant components of the Company's deferred income tax assets and liabilities, using a Canadian basic statutory rate of 26% and South African statutory tax rate of 28% are as follows:

	2015	2014
Non-capital loss carryforwards	\$ 1,966,000	\$ 1,958,000
Share issuance costs	1,000	3,000
Cumulative exploration and development expenses	767,000	864,000
Capital loss carryforwards	<u>831,000</u>	<u>831,000</u>
	3,565,000	3,656,000
Unrecognized deferred tax assets	<u>(3,565,000)</u>	<u>(3,656,000)</u>
Net deferred tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses for Canadian income tax purposes of approximately \$7,103,470. These losses, if not utilized, will expire as follows:

2035	\$ 487,530
2034	613,550
2033	684,180
2032	895,300
2031	1,107,900
2030	814,900
2029	439,990
2028	655,260
2027	719,460
2026	<u>685,400</u>
	<u>\$ 7,103,470</u>

Future tax benefits, which may arise as a result of these losses, have not been recognized in these consolidated financial statements as it is not probable that the Company will generate future taxable income against which to utilize the temporary differences.