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**MONTERO MINING AND EXPLORATION LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**September 30, 2013 and 2012**

**Expressed in Canadian Dollars**

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The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of the management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars – unaudited)

	Notes	September 30, 2013	December 31, 2012
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		62,502	498,872
Trade and other receivables		4,431	8,754
Prepaid expenses and deposits		19,673	37,966
Held for sale assets	4	1,422,987	1,532,077
<b>Total current assets</b>		<b>1,509,593</b>	<b>2,077,669</b>
<b>Non-current assets</b>			
Plant and equipment		78,142	99,809
Exploration and evaluation assets	5	9,662,238	8,729,396
<b>Total non-current assets</b>		<b>9,740,380</b>	<b>8,829,205</b>
<b>TOTAL ASSETS</b>		<b>11,249,973</b>	<b>10,906,874</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	781,683	1,576,623
<b>Total current liabilities</b>		<b>781,683</b>	<b>1,576,623</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	6	13,906,274	12,502,753
Obligation to issue shares	6	-	404,666
Warrant reserve	7	526,497	4,162,952
Share-based payment reserve	8	6,344,682	2,112,466
Foreign currency reserve		(44,299)	(236,713)
Accumulated deficit		(10,264,864)	(9,615,873)
<b>Total shareholders' equity</b>		<b>10,468,290</b>	<b>9,330,251</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>11,249,973</b>	<b>10,906,874</b>

**On behalf of the Board:**

*"Antony Harwood"*

Antony Harwood, Director

*"Antonia J Chapman"*

Antonia J Chapman, Director

See accompanying notes to the condensed consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars - unaudited)

		Three months ended		Nine months ended	
	Notes	Sept 30, 2013	Sept 30, 2012	Sept 30, 2013	Sept 30, 2012
		\$	\$	\$	\$
<b>EXPENSES</b>					
Consulting, directors', administrative and management fees	11	64,693	167,658	280,892	653,955
Depreciation		7,655	10,056	24,534	32,013
General and administrative	11	9,055	21,812	46,158	69,237
Impairment of assets	4,5	-	42,228	32,014	659,554
Other expenses		9,664	14,741	43,010	86,703
Professional fees		18,152	22,957	59,684	95,511
Project investigation costs	11	-	-	6,242	8,381
Shareholder and regulatory	11	23,053	25,048	89,316	242,429
Stock-based compensation	6	-	-	69,264	-
<b>OPERATING LOSS</b>		<b>(132,272)</b>	<b>(304,500)</b>	<b>(651,114)</b>	<b>(1,847,783)</b>
<b>OTHER ITEMS</b>					
Interest income		215	1,509	2,532	10,645
Foreign exchange		(702)	(2,857)	(409)	(19,297)
		(487)	(1,348)	2,123	(8,652)
<b>NET LOSS</b>		<b>(132,759)</b>	<b>(305,848)</b>	<b>(648,991)</b>	<b>(1,856,435)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange difference on translating foreign operations		(232,491)	(329,913)	192,414	(299,277)
<b>COMPREHENSIVE INCOME (LOSS)</b>		<b>(365,250)</b>	<b>(635,761)</b>	<b>(456,577)</b>	<b>(2,155,712)</b>
<b>LOSS PER SHARE – BASIC AND DILUTED</b>	9	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.03)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>		71,031,679	54,687,063	70,236,683	54,687,063

See accompanying notes to the condensed consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian dollars - unaudited)

	Note	Share Capital	Warrant Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Other Components of Equity	Accumulated Deficit	TOTAL EQUITY	
		Number of Shares	\$	\$	\$	\$	\$	\$	
<b>Balance, December 31, 2011</b>		<b>54,687,063</b>	<b>12,511,041</b>	<b>4,559,975</b>	<b>1,715,443</b>	<b>57,881</b>	<b>—</b>	<b>(6,247,602)</b>	<b>12,596,738</b>
Net loss and comprehensive loss		—	—	—	—	(299,277)	—	(1,856,435)	(2,155,712)
<b>Balance, September 30, 2012</b>		<b>54,687,063</b>	<b>12,511,041</b>	<b>4,559,975</b>	<b>1,715,443</b>	<b>(241,396)</b>	<b>—</b>	<b>(8,104,037)</b>	<b>10,441,026</b>
Obligation to issue shares		—	—	—	—	404,666	—	—	404,666
Share issue costs		—	(8,288)	—	—	—	—	—	(8,288)
Transfer fair value of expired warrants		—	—	(397,023)	397,023	—	—	—	—
Net loss and comprehensive loss		—	—	—	—	4,683	—	(1,511,836)	(1,507,153)
<b>Balance, December 31, 2012</b>		<b>54,687,063</b>	<b>12,502,753</b>	<b>4,162,952</b>	<b>2,112,466</b>	<b>(236,713)</b>	<b>404,666</b>	<b>(9,615,873)</b>	<b>9,330,251</b>
Shares issued for:									
Cash	6	11,200,000	1,400,000	—	—	—	(404,666)	—	995,334
Debt settlement	6	5,144,616	643,077	—	—	—	—	—	643,077
Share issue costs	6	—	(168,302)	55,243	—	—	—	—	(113,059)
Fair value of warrants	6,7	—	(471,254)	471,254	—	—	—	—	—
Transfer fair value of expired warrants		—	—	(4,162,952)	4,162,952	—	—	—	—
Stock-based compensation		—	—	—	69,264	—	—	—	69,264
Net loss and comprehensive loss		—	—	—	—	192,414	—	(648,991)	(456,577)
<b>Balance, September 30, 2013</b>		<b>71,031,679</b>	<b>13,906,274</b>	<b>526,497</b>	<b>6,344,682</b>	<b>(44,299)</b>	<b>—</b>	<b>(10,264,864)</b>	<b>10,468,290</b>

See accompanying notes to the condensed consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars - unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2013	Sept 30, 2012	Sept 30, 2013	Sept 30, 2012
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	(132,759)	(305,848)	(648,991)	(1,856,435)
Adjustments to loss for non-cash items:				
Depreciation	7,655	10,056	24,534	32,013
Impairment of assets	-	42,228	32,014	659,554
Stock-based compensation	-	-	69,264	-
Net changes in non-cash working capital items:				
Trade and other receivables	2,760	(153)	4,323	1,962
Prepaid expenses and deposits	16,407	(11,235)	18,293	46,753
Trade and other payables	10,343	33,713	(151,863)	228,927
Net cash flows (used in) operating activities	(95,594)	(231,239)	(652,426)	(887,226)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Expenditures on property, plant and equipment	-	-	-	(20,826)
Expenditures on exploration and evaluation assets	(85,082)	(403,094)	(666,219)	(1,989,685)
Net cash flows (used in) investing activities	(85,082)	(403,094)	(666,219)	(2,010,511)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	-	-	995,334	-
Share issue costs	-	-	(113,059)	-
Net cash flows from financing activities	-	-	882,275	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(180,676)	(634,333)	(436,370)	(2,897,737)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	243,178	986,358	498,872	3,249,762
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	62,502	352,025	62,502	352,025

See accompanying notes to the condensed consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**  
(Expressed in Canadian dollars - unaudited)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Montero Mining and Exploration Ltd ("Montero") was incorporated on October 5, 2006, under the laws of British Columbia, Canada. Montero and its subsidiaries (collectively, the "Company") are engaged in the acquisition and exploration of mineral properties in Tanzania, South Africa and Canada.

Montero is a publicly listed company with its shares listed on the TSX Venture Exchange ("TSX-V"). The Company's registered office is located at 1040 West Georgia Street, Suite 1900, Vancouver, BC, V6E 4H3 and its head office is located at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6.

**Going Concern**

These condensed consolidated interim financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2013 the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through revenue from operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions give rise to significant doubt about the Company's ability to continue as a going concern.

However, management believes that it will be able to raise sufficient cash to finance operating and exploration activities over the next twelve months. Management has undertaken to reduce operating costs including voluntary fee reductions from management, reduced rent and administrative fees and decreased usage of administrative staff and consultants. As well, management has kept exploration costs to a minimum which include staff reductions and deferred work programs. These efforts will extend the Company's treasury. Management is actively pursuing the sale of non-strategic assets as outlined in Note 4 which could generate further funding for the Company's operations. In addition, project financing is being pursued for the Company's Wigu Hill project and discussions are still underway with a Strategic Investor who has signed a non-binding term sheet on November 16, 2012. The terms and conditions are indicative at this stage and the Strategic Investor is still undertaking to complete its due diligence.

Earlier in the year, the Company raised funds through a private placement and also settled debts with the issue of common shares which extended the Company's cash. Subsequent to September 30, 2013, the Company entered into loan agreements with a company that has a director in common with the Company and with an associate, for funds totalling \$165,000 (Note 16). Management believes that further reductions in operating expenses, funding from potential funding partners, borrowings from directors and management, and further private placements will generate the required funding to maintain operations. Although management is committed and expects to raise additional funding, the timing and the nature of the financing is uncertain and there can be no assurances that this will occur.

**2. STATEMENT OF COMPLIANCE**

The condensed consolidated interim financial statements of the Company, including comparatives, have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**MONTERO MINING AND EXPLORATION LTD.**  
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**2. STATEMENT OF COMPLIANCE – Continued**

These condensed consolidated interim financial statements comply with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all of the information required of a complete set of consolidated financial statements and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and the performance of the Company since the end of its last annual reporting period. It is therefore recommended that these condensed consolidated interim financial statements be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2012, which were prepared in accordance with IFRS as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue on November 29, 2013 by the Audit Committee of the Company.

**3. BASIS OF PRESENTATION**

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual consolidated financial statements of the Company for the year ended December 31, 2012. The condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed consolidated interim financial statements are presented in Canadian dollars (“CAD”), unless otherwise indicated.

**4. HELD FOR SALE ASSETS**

On October 18, 2010, the Company’s subsidiary, Montero Projects Limited (“Montero Projects”) entered into a binding term sheet agreement with Celtic Trust Company Limited (“Celtic”), whereby Montero Projects had the exclusive right to acquire the shares in Celtic’s subsidiary (Eurozone Investments Limited, hereafter “Eurozone”) which hold interests in subsidiary companies that hold 4 phosphate exploration projects in South Africa (“Phosco”). Montero Projects paid an advance of \$101,700 (United States dollars “USD” \$100,000) to be granted an exclusivity period, which expired on July 18, 2011, to complete due diligence on the Phosco assets. An amendment to the binding term sheet agreement was executed on November 18, 2011 (the “Effective Date”), whereby Montero Projects agreed to acquire the shares in Eurozone by issuing 2,500,000 common shares of Montero. Concurrently, the due diligence was completed, approval was received from the TSX-V and the Company issued the 2,500,000 common shares to complete the acquisition of Eurozone.

The fair value of the assets received could not be estimated reliably, so the amounts were calculated using the fair value of the instruments granted in accordance with IFRS 2, *Share-based Payment*. The fair value of the common shares was calculated using the trading stock price of Montero, which resulted in the fair value of the shares being valued at \$750,000, representing the total consideration paid for Phosco. The transaction did not constitute a business combination as Eurozone did not meet the definition of a business under IFRS 3 *Business Combinations* and therefore was originally accounted for as an acquisition of a group of exploration and evaluation assets and other related assets and liabilities.

An additional 1,000,000 common shares of Montero may have had to be issued as consideration if a mining industry compliant report (the “Report”) was obtained, indicating a phosphate inferred resource on certain prospecting rights of one of the Phosco assets (the “Bierkraal Project”). The Company had 18 months from the Effective Date to conduct an exploration program on the Bierkraal Project and, if at the end of this period, the Company had not obtained the Report or given notice to Celtic that they intend to obtain the Report, the Company shall offer to transfer back the shares of the subsidiary that holds the Bierkraal Project to Celtic for no consideration. On May 18, 2013, the Company and Celtic agreed to complete the transfer the shares of the subsidiary that holds the Bierkraal from Montero to Celtic for nil consideration and have also agreed that no additional shares will be issued. The Company has therefore recorded an impairment charge for initial due diligence and exploration costs related to the Bierkraal Project totaling \$32,014 for the nine months ended September 30, 2013.

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**  
(Expressed in Canadian dollars - unaudited)

**4. HELD FOR SALE ASSETS – Continued**

On March 22, 2012 the Company engaged AltaCorp Capital Inc. (“Advisor”) to assist them in completing a sale of its Phosco assets. The agreement with the Advisor provided for a payment of a success fee to the Advisor of 4% of the transaction value subject to a minimum success fee of \$250,000 if the Phosco assets are sold within six months of the expiry of the agreement to a buyer specifically introduced to the Company by the Advisor. The original agreement with the Advisor was in effect until the earlier of i) the date which is three months from the date of the agreement and ii) the date the Phosco assets are sold. Both parties have agreed that the expiry of the agreement be extended such that the agreement with the Advisor was in effect until the earlier of i) the date which is nine months from the date of the agreement (i.e., December 22, 2012) and ii) the date the Phosco assets are sold. Accordingly, the above-noted success fee was payable upon a sale of the Phosco assets to a buyer specifically introduced to the Company by the Advisor completed on or before June 22, 2013. Since the Phosco assets were not sold on or before June 22, 2013, there are no amounts payable to the Advisor on any eventual sale of the Phosco assets. Although management is committed and expects to sell the Phosco assets, there can be no assurances that a sale will take place and the timing of such a sale is uncertain.

In accordance with IFRS, the Company has now presented the assets as *Held for Sale* assets which comprise the following:

	\$
Reclamation bonds	20,992
Exploration and evaluation assets	1,401,995
<b>Held for sale assets</b>	<b>1,422,987</b>

**5. EXPLORATION AND EVALUATION ASSETS**

A summary of the Company’s exploration and evaluation assets by property area is as follows:

	September 30, 2013	December 31, 2012
	\$	\$
Tanzania		
Wigu Hill	9,492,107	8,565,210
Canada		
Girard	170,131	164,186
	<b>9,662,238</b>	<b>8,729,396</b>

**a) Tanzania**  
**Wigu Hill Project**

On May 26, 2008 (amended June 30, 2009 and April 27, 2010) the Company and RSR (Tanzania) Limited (“RSR”) entered into an agreement whereby RSR granted the Company an exclusive option to earn an initial 60% interest in the Wigu Hill Project (the “First Option”), and an additional 10% interest in the Wigu Hill Project (the “Second Option”). The terms and conditions of the final amended agreement on April 27, 2010 are outlined as follows. In order to exercise the First Option, the Company must pay United States Dollars (“USD”) \$150,000 on or before April 30, 2010 (paid). After the exercise of the First Option, RSR will transfer the prospecting licences comprising the Wigu Hill Project (the “Wigu Hill Licences”) to a newly-formed company (established and called - Wigu Hill Mining Company Limited “WHMC”) and the Company will concurrently pay RSR a further USD \$50,000 (paid). The Company is further obligated to incur exploration expenditures of USD \$3.5 million (incurred) (or alternatively complete a prefeasibility study) on or before November 28, 2012. Once completed, the Company may at its sole discretion, within 60 days after November 28, 2012, elect to acquire a further 10% interest in the Wigu Hill Licences by paying RSR a further USD \$2,000,000 to complete the requirements to execute the Second Option (amended as outlined below).



**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**

(Expressed in Canadian dollars - unaudited)

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**5. EXPLORATION AND EVALUATION ASSETS – Continued**

On September 22, 2011, the Company and RSR executed a Shareholders' Agreement, which outlines the following:

- amended the payment of USD \$2,000,000 to an initial Second Option payment of \$800,000 (paid) and a final Second Option payment of USD \$700,000, which is to be paid subject to receipt of mining and retention licences granted by the Government of Tanzania, as well as a development agreement executed by the Government of Tanzania and the Company. By mutual agreement between the Company and RSR, the USD \$700,000 payment may be satisfied by the issuance of common shares of Montero at the prevailing market price of such shares at the date of payment.
- agreement that the Company has now duly and validly exercised the First Option and the Second Option, and owns a 70% interest in the Wigu Hill Licences.
- RSR has transferred the Wigu Hill Licences to WHMC which was originally owned 70% by the Company and 30% by RSR. Further funding of exploration on the Wigu Hill Licences shall be provided by the Company and RSR in proportion to their ownership of WHMC.
- dilution provisions are provided subject to a deemed expenditure formula and, where a party's interest is diluted to less than 10%, conversion of such interest to a 2.5% net smelter returns royalty ("NSR") will be done. The Company has the right to purchase all or part of the NSR for USD \$1 million per each 0.5%.

After the establishment of WHMC, further exploration costs were incurred by the Company and RSR's share of these costs at September 30, 2013 was determined to be \$1,219,993 (USD \$1,186,187). These expenses have been included in exploration and evaluation assets. Management has not recorded RSR's share as a receivable due to the uncertainty of payment. RSR was put on notice for its required contribution and advised that dilution would occur if payment was not received. As of September 30, 2013, the notice period for receipt of payment had expired and Montero increased its ownership of the Wigu Hill Licences to 82.25%.

**b) Canada**

**Girard Claim Area**

On April 25, 2007, the Company entered into an agreement to acquire a 100% interest in the Girard claims located in Quebec for consideration of 2,000,000 common shares (issued) valued at \$625,000 and by incurring exploration expenditures totalling \$640,000 over five years. Anniversary payments were also required which totaled \$235,000, \$100,000 which was paid in cash and the remaining \$135,000 was settled by the issuance of 1,000,000 common shares valued at \$135,000.

During the year ended December 31, 2012, the Company reviewed its plans in this area and decided not to pursue exploration in certain areas of the Girard claim area, resulting in an impairment of these exploration and evaluation assets. The licences in the Girard Claim area currently have a carrying value of \$170,131.

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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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(Expressed in Canadian dollars - unaudited)

**5. EXPLORATION AND EVALUATION ASSETS – Continued**

Details of the Company's expenditures on exploration and evaluation assets are as follows:

	<b>Tanzania</b>	<b>Canada</b>	<b>Nine months ended Sept 30, 2013</b>	<b>Year ended December 31, 2012</b>
	<b>Wigu Hill</b>	<b>Girard</b>		
	\$	\$	\$	\$
<b>Property acquisition costs</b>				
Balance, beginning of period	1,228,946	111,183	<b>1,340,129</b>	3,400,702
Foreign currency translation	41,624	-	<b>41,624</b>	(12,738)
Additions	6,131	54	<b>6,185</b>	102,749
Impairment	-	-	-	(1,265,862)
Reclassification to Held for Sale assets	-	-	-	(884,722)
<b>Balance, end of period</b>	<b>1,276,701</b>	<b>111,237</b>	<b>1,387,938</b>	<b>1,340,129</b>
<b>Exploration and evaluation costs</b>				
Balance, beginning of period	7,336,264	53,003	<b>7,389,267</b>	6,724,964
Foreign currency translation	256,902	-	<b>256,902</b>	(169,228)
Costs incurred during the period:				
Field and camp costs	94,663	-	<b>94,663</b>	394,290
Geochemical & metallurgical	41,186	-	<b>41,186</b>	215,538
Geological consulting	190,963	-	<b>190,963</b>	770,893
Geophysical and maps	318	-	<b>318</b>	23,665
Maintenance & environmental	46,679	316	<b>46,995</b>	140,495
Motor vehicle costs	16,914	-	<b>16,914</b>	83,460
Project administration costs	131,019	5,575	<b>136,594</b>	288,801
Refinery hydromet and testing	80,607	-	<b>80,607</b>	172,186
Travel and accommodation	19,891	-	<b>19,891</b>	85,892
	<b>8,215,406</b>	<b>58,894</b>	<b>8,274,300</b>	<b>8,730,956</b>
Exploration tax credits	-	-	-	(1,406)
Impairment	-	-	-	(676,502)
Reclassification to Held for Sale assets	-	-	-	(663,781)
	-	-	-	(1,341,689)
<b>Balance, end of period</b>	<b>8,215,406</b>	<b>58,894</b>	<b>8,274,300</b>	<b>7,389,267</b>
<b>Total</b>	<b>9,492,107</b>	<b>170,131</b>	<b>9,662,238</b>	<b>8,729,396</b>

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**  
(Expressed in Canadian dollars - unaudited)

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**6. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value.

**Issued and outstanding**

At September 30, 2013 there were 71,031,679 issued and fully paid common shares outstanding (December 31, 2012 – 54,687,063).

**Details of changes to share capital**

- i) On January 3, 2013, the Company completed a debt settlement by issuing 5,144,616 common shares at a fair value of \$0.125 per share to settle trade and other payables totalling \$643,077.
- ii) On January 18, 2013, the Company closed a private placement by issuing 11,200,000 Units at a price of \$0.125 per Unit for gross cash proceeds of \$1,400,000. Each Unit consists of one common share and one common share warrant to purchase one common share at a price of \$0.25 per share until January 18, 2015. At December 31, 2012, funds totalling \$404,666 were received in advance of closing this private placement and were reflected as an obligation to issues shares at December 31, 2012. In connection with the private placement, the Company paid a finders' fee of \$66,378 and other share issue costs of \$46,681 for total cash share issue costs of \$113,059. In addition, the Company issued 531,020 Finders' Warrants. Each Finder's Warrant entitles the holder to acquire one Unit at a price of \$0.125 per Unit until January 18, 2015.

The Company has valued the warrants and Finder's Warrants issued in connection with this private placement using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.17%; volatility 100%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of \$471,254 attributable to the warrants has been reclassified from share capital and charged to warrant reserve. The resultant value of \$55,243 attributable to the warrants issued to eligible finders has been charged to share issue costs and warrant reserve.

**Escrow and restricted shares**

Shares totalling 8,102,669 shares and 1,850,000 stock options that were held by the principals of the Company prior to the completion of the Company's Initial Public Offering ("IPO") are subject to escrow provisions and are being released in accordance with a schedule imposed by the TSX-V which is that 10% of such securities were released upon the Company's shares being listed on the TSX-V and 15% will be released every six months thereafter. In addition, 1,919,834 shares and 125,000 stock options held by non-principals prior to the IPO, are subject to resale restrictions imposed by the TSX-V, which amounts to 1,000,000 of such shares being subject to the same provisions as noted above for the principals and the remainder generally subject to a timed release of 20% every month, amongst other provisions.

As of September 30, 2013, 1,215,403 (December 31, 2012 – 3,646,201) of the above noted shares and 240,000 (December 31, 2012 – 720,000) of the above noted stock options are still held in escrow or subject to a release schedule.

**Stock options**

The Company has established a Stock Option Plan (the "Plan") for directors, officers, employees and consultants. The number of common shares that are available for grants of options under the Plan shall not at any time exceed 10% of the number of outstanding common shares, calculated at the time of grant. Options granted under the Plan generally have a term of five years and vest on the date of the grant.

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**6. SHARE CAPITAL – Continued**

**Stock options – Continued**

A summary of the continuity of the Company's stock options is as follows:

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		\$		\$
Options outstanding, beginning of period	4,655,000	0.32	5,105,000	0.32
Granted	1,805,000	0.125	-	-
Expired	(525,000)	0.15	(450,000)	0.31
Options outstanding and exercisable, end of period	5,935,000	0.28	4,655,000	0.32

On April 30, 2013 the Company granted 1,805,000 stock options with an exercise price of \$0.125 per share. The fair value of these stock options granted has been estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; a risk-free interest rate of 1.13% and an expected average life of 5 years. The resultant charge of \$69,264 has been charged to stock-based compensation expense and credited to share-based payment reserve.

As of September 30, 2013, certain of these stock options totaling 240,000 (December 31, 2012 – 720,000) stock options, remain subject to escrow and resale restrictions as described above.

The stock options expire as follows: 1,375,000 options with an average exercise price of \$0.17 per share in 2015, 2,755,000 options with an average exercise price of \$0.44 in 2016 and 1,805,000 with an average exercise price of \$0.125 in 2018. The weighted average remaining contractual life of the outstanding stock options is 3.02 years.

**7. WARRANTS**

The issued and outstanding warrants are comprised of the following:

<b>Date of expiry</b>	<b>Warrant Reserve</b>	<b>Number of warrants</b>	<b>Exercise Price</b>
	\$		\$
January 18, 2015	493,597	11,731,020	0.25
January 18, 2015	32,900	531,020	0.125
<b>Balance, September 30, 2013</b>	<b>526,497</b>	<b>12,262,040</b>	

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**7. WARRANTS – Continued**

A summary of the continuity of the Company's warrants is as follows:

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		\$		\$
Warrants outstanding, beginning of period	10,137,159	0.73	12,328,159	0.73
Granted	12,262,040	0.24	-	-
Expired	(10,137,159)	0.73	(2,191,000)	0.70
Warrants outstanding, end of period	12,262,040	0.24	10,137,159	0.73

At September 30, 2013, the weighted average remaining contractual life of the outstanding warrants was 1.30 years.

**8. SHARE-BASED PAYMENT RESERVE**

The Company's share-based payment reserve is comprised of the following:

	\$
Expired warrants	4,559,975
Expired stock options	264,076
Unexpired stock options	1,520,631
<b>Balance, September 30, 2013</b>	<b>6,344,682</b>

**9. LOSS PER SHARE**

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year. The basic and diluted loss per share are the same since the Company reported a loss for the period.

	<b>Sept 30, 2013</b>	<b>Sept 30, 2012</b>
	\$	\$
Net loss attributable to owners of the parent company	(648,991)	(1,856,435)
Weighted average number of ordinary shares outstanding	70,236,683	54,687,063
Basic and diluted loss per ordinary share	(0.01)	(0.03)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these condensed consolidated interim financial statements.

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**10. COMMITMENTS AND CONTINGENCIES**

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in Note 5.

**11. RELATED PARTY TRANSACTIONS**

**Key management personnel compensation**

	<b>Nine months ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<i>Compensation of directors</i>		
Short-term benefits	24,500	59,401
Share-based payments	17,000	-
	<b>41,500</b>	<b>59,401</b>
<i>Compensation of key management personnel</i>		
Short-term benefits	211,501	672,769
Share-based payments	36,000	-
	<b>247,501</b>	<b>672,769</b>
<b>Total remuneration of directors and key management personnel</b>	<b>289,001</b>	<b>732,170</b>

**Related party transactions**

The Company incurred the following transactions with management, directors, officers or companies which have directors in common, or in which the directors have significant influence and interests.

	<b>Nine months ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<i>Exploration and evaluation asset transactions</i>		
Geological consulting	23,918	134,616
Other	32,582	60,025
Total exploration and evaluation asset transactions	<b>56,500</b>	<b>194,641</b>
<i>Operating expense transactions</i>		
Consulting, directors', administrative and management fees	65,889	82,936
General and administrative	9,000	18,000
Project investigation costs	-	1,000
Shareholder and regulatory	6,868	33,294
	<b>81,757</b>	<b>135,230</b>
<b>Total trading transactions with related parties</b>	<b>138,257</b>	<b>329,871</b>

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**11. RELATED PARTY TRANSACTIONS – Continued**

**Related party balances**

The following amounts due to related parties are included in trade and other payables:

	September 30, 2013	December 31, 2012
	\$	\$
<b>Due to related parties</b>	<b>391,586</b>	<b>971,103</b>

The amounts due to related parties represent amounts due to directors and officers or companies which have directors in common, or in which the directors have significant influence and interests. These amounts are unsecured, non-interest bearing and are due within twelve months.

**12. SEGMENTED INFORMATION**

The Company has one business segment being the exploration and evaluation of mineral resources. The Company is organized by geographic area and as such, its reportable operating segments are located in Canada, Tanzania and South Africa. Since the Company intends to sell the Phosco assets in South Africa, these costs are reflected as a current asset reported as *Held for Sale Assets* totaling \$1,422,987 as at September 30, 2013 (\$1,532,077 as at December 31, 2012).

Information regarding the Company's geographic segments is as follows:

<b>As at September 30, 2013</b>			
	Canada	Tanzania	Total
	\$	\$	\$
Plant and equipment	-	78,142	78,142
Exploration and evaluation assets	170,131	9,492,107	9,662,238
<b>Total non-current assets</b>	<b>170,131</b>	<b>9,570,249</b>	<b>9,740,380</b>

  

<b>As at December 31, 2012</b>			
	Canada	Tanzania	Total
	\$	\$	\$
Plant and equipment	-	99,809	99,809
Exploration and evaluation assets	164,186	8,565,210	8,729,396
<b>Total non-current assets</b>	<b>164,186</b>	<b>8,665,019</b>	<b>8,829,205</b>

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**13. NON-CASH TRANSACTIONS**

During the nine months ended September 30, 2013, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	September 30, 2013	December 31, 2012
	\$	\$
Warrants issued for share issue costs	55,243	-
Warrants issued for private placement	471,254	-
Shares issued for debt settlement	643,077	-

**14. CAPITAL MANAGEMENT**

The Company manages its capital to ensure that it will be able to continue as a going concern, while supporting the Company's business and maximizing the return to its stakeholders. The Company's capital structure is adjusted based on management's decisions to issue debt or equity instruments to fund expenditures. In order to maximize ongoing exploration efforts, the Company does not pay dividends. The Company's Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business. The capital of the Company consists of equity attributable to owners of the parent comprised of share capital, stock options and warrants.

The Company's principle assets are in the exploration and evaluation stage and, as a result, the Company currently has no source of operating cash flow. In order to facilitate the management of capital and exploration of its mineral properties, the Company needs to raise capital as and when required to complete its projects and for working capital. The sources of future funds presently available to the Company are through the issuance of new share capital, through the exercise of stock options and/or warrants or through divestiture of non-strategic assets. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as the business performance of the Company. There can be no assurances that the Company will be successful in its efforts to arrange additional financing, when required, on terms satisfactory to the Company.

Management prepares operating budgets to forecast its financing requirements in advance and they review their capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company. The Company's investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity. The Company's overall strategy remains unchanged from the prior period. The Company is not subject to any externally imposed capital requirements.

**15. RISK MANAGEMENT**

The Company operates in the mining industry and faces a number of risks that could adversely affect the Company's operations. These risks include industry risk, credit risk, liquidity risk, interest rate risk, foreign currency risk, commodity price risk. Management reviews and develops policies for managing each of these risks which are summarized below.

*Industry Risk*

The Company is engaged in the mineral exploration field, which is subject to inherent risks of success as well as compliance with environmental, political and regulatory requirements. The Company is potentially at risk for environmental reclamation obligations associated with resource property interests. As well, the Company operates in foreign countries and is subject to local political risks, as well as local regulatory requirements regarding ownership and maintenance of mineral licences. Management is of the opinion that they have the expertise to address these



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**15. RISK MANAGEMENT – Continued**

*Industry Risk - Continued*

risks and makes all efforts to conduct their business in compliance with local industry standards, however, environmental and local industry laws and practices are complex, and there is no certainty that all exposure to liability or costs have been mitigated.

*Credit Risk*

Credit risk is the risk of loss associated with a counter-party's ability to fulfill its payment obligations. The Company's primary exposure to credit risk is attributable to its cash and cash equivalents, as well as trade and other receivables. This risk relating to cash and cash equivalents is considered low since the Company only invests its cash in major banks which are high credit quality financial institutions. The trade and other receivables primarily comprise local sales tax refunds due from governmental agencies and, as such, management considers the risk with their collection minimal. The cash and cash equivalents are invested in short-term investment certificates for periods less than 90 days and the trade and other receivables are due in less than 90 days.

*Liquidity Risk*

Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements and to develop budgets to forecast cash requirements in advance of their requirements. As discussed previously in Note 14, the Company currently does not have a source of operating cash flow and must raise funds for its exploration and evaluation programs and for general working capital. There are risks associated with raising the funds required, and there can be no assurances that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. The Company's trade and other payables are generally due within 90 days, with all amounts due within twelve months.

*Interest Rate Risk*

Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents which represent excess cash invested in short-term investments and these accrue interest at variable market rates. The Company monitors these investments with its need for cash flow and is satisfied with the return on these investments, given the timing of the need for cash in the Company. The Company has no interest-bearing liabilities. At September 30, 2013, the effect of changes in interest rates is not significant to the Company.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada, South Africa and Tanzania and portions of its expenditures are incurred in US dollars, South African Rand and Tanzanian Shillings. The Company's presentation currency is the Canadian dollar ("CAD"), the Tanzanian subsidiaries' functional currency is the United States dollar ("USD") and the South African subsidiaries' functional currency is South African Rand ("ZAR"). At September 30, 2013, the value of financial assets and liabilities denominated in currencies other than the functional currency of the entity to which they relate is not significant.

*Commodity Price Risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value of its exploration and evaluation assets, due to commodity price movements and volatilities. The Company monitors commodity prices (primarily rare earth elements, phosphates and uranium) to determine the appropriate course of action to be taken by the Company.

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**16. EVENTS AFTER THE REPORTING PERIOD**

On November 29, 2013, the Company entered into loan agreements for amounts totalling \$165,000 with a company which has a director in common with the Company and with an associate. The loan bears interest at 12% per annum and is due on May 31, 2014.