
MONTERO MINING AND EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013
Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Montero Mining and Exploration Ltd.

We have audited the accompanying consolidated financial statements of Montero Mining and Exploration Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in shareholders' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that 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 Montero Mining and Exploration Ltd. as at December 31, 2014 and 2013, 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 matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Montero Mining and Exploration Ltd.'s ability to continue as a going concern.

A handwritten signature in black ink that reads "DMCL".

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 28, 2015

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

| | Notes | December 31, 2014 | December 31, 2013 |
|---|-------|----------------------|----------------------|
| ASSETS | | \$ | \$ |
| Current assets | | | |
| Cash | 5 | 25,080 | 24,406 |
| Trade and other receivables | 6 | 1,419 | 2,655 |
| Prepaid expenses and deposits | | 3,437 | 5,650 |
| Held for sale assets | 7 | - | 1,408,677 |
| Total current assets | | 29,936 | 1,441,388 |
| Non-current assets | | | |
| Reclamation bonds | 9 | 10,553 | - |
| Plant and equipment | 8 | 51,899 | 73,271 |
| Exploration and evaluation assets | 9 | 2,352,137 | 9,912,655 |
| Total non-current assets | | 2,414,589 | 9,985,926 |
| TOTAL ASSETS | | 2,444,525 | 11,427,314 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 10,18 | 1,105,675 | 840,769 |
| Loans payable | 11,18 | 213,077 | 65,710 |
| Total current liabilities | | 1,318,752 | 906,479 |
| SHAREHOLDERS' EQUITY | | | |
| Equity attributable to the owners of the Company | | | |
| Share capital | 12 | 13,906,274 | 13,906,274 |
| Warrant reserve | 13 | 526,497 | 526,497 |
| Share-based payment reserve | 14 | 6,344,682 | 6,344,682 |
| Foreign currency translation reserve | | 943,738 | 269,413 |
| Accumulated deficit | | (20,595,418) | (10,526,031) |
| Total shareholders' equity | | 1,125,773 | 10,520,835 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 2,444,525 | 11,427,314 |

Subsequent events

9, 23

On behalf of the Board:

"Antony Harwood"

Antony Harwood, Director

"Antonia J Chapman"

Antonia J Chapman, Director

See accompanying notes to the consolidated financial statements

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

| | Notes | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--|-------|------------------------------------|------------------------------------|
| | | \$ | \$ |
| EXPENSES | | | |
| Consulting, directors', administrative and management fees | 18 | 162,887 | 341,886 |
| Depreciation | 8 | 26,218 | 31,684 |
| General and administrative | 18 | 29,317 | 37,114 |
| Impairment of exploration and evaluation assets | 9 | 9,776,380 | 203,770 |
| Other expenses | | 26,998 | 50,450 |
| Professional fees | | 17,907 | 72,359 |
| Project investigation costs | | - | 13,644 |
| Shareholder and regulatory | 18 | 47,680 | 102,524 |
| Stock-based compensation | 12 | - | 69,264 |
| OPERATING LOSS | | (10,087,387) | (922,695) |
| OTHER ITEMS | | | |
| Finance costs | 11,18 | (17,367) | (710) |
| Foreign exchange loss | | (243) | (1,034) |
| Interest and other income | 18 | 35,610 | 14,281 |
| | | 18,000 | 12,537 |
| NET LOSS | | (10,069,387) | (910,158) |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange difference on translating foreign operations | | 674,325 | 506,126 |
| COMPREHENSIVE LOSS | | (9,395,062) | (404,032) |
| LOSS PER SHARE – BASIC AND DILUTED | 16 | \$ (0.14) | \$ (0.01) |

See accompanying notes to the consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

| | Note | Share Capital | Warrant Reserve | Share Based Payment Reserve | Foreign Currency Translation Reserve | Other Components of Equity | Accumulated Deficit | TOTAL EQUITY | |
|---|------|-------------------|-------------------|-----------------------------|--------------------------------------|----------------------------|---------------------|---------------------|--------------------|
| | | Number of Shares | \$ | \$ | \$ | \$ | \$ | \$ | |
| Balance, December 31, 2012 | | 54,687,063 | 12,502,753 | 4,162,952 | 2,112,466 | (236,713) | 404,666 | (9,615,873) | 9,330,251 |
| Shares issued for: | | | | | | | | | |
| Cash | 12 | 11,200,000 | 1,400,000 | — | — | — | (404,666) | — | 995,334 |
| Debt settlement | 12 | 5,144,616 | 643,077 | — | — | — | — | — | 643,077 |
| Share issue costs | 12 | — | (168,302) | 55,243 | — | — | — | — | (113,059) |
| Fair value of warrants issued | 12 | — | (471,254) | 471,254 | — | — | — | — | — |
| Transfer fair value of expired warrants | | — | — | (4,162,952) | 4,162,952 | — | — | — | — |
| Stock-based compensation | 12 | — | — | — | 69,264 | — | — | — | 69,264 |
| Net loss and comprehensive loss | | — | — | — | — | 506,126 | — | (910,158) | (404,032) |
| Balance, December 31, 2013 | | 71,031,679 | 13,906,274 | 526,497 | 6,344,682 | 269,413 | — | (10,526,031) | 10,520,835 |
| Net loss and comprehensive loss | | — | — | — | — | 674,325 | — | (10,069,387) | (9,395,062) |
| Balance, December 31, 2014 | | 71,031,679 | 13,906,274 | 526,497 | 6,344,682 | 943,738 | — | (20,595,418) | 1,125,773 |

See accompanying notes to the consolidated financial statements

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

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--|---------------------------------|---------------------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss for the year | (10,069,387) | (910,158) |
| Adjustments to loss for non-cash items: | | |
| Depreciation | 26,218 | 31,684 |
| Exploration cost recoveries | (28,567) | - |
| Impairment of exploration and evaluation assets | 9,776,380 | 203,770 |
| Non-cash interest expense | 17,367 | 710 |
| Stock-based compensation | - | 69,264 |
| Net changes in non-cash working capital items: | | |
| Trade and other receivables | 1,236 | 6,099 |
| Prepaid expenses and deposits | 2,213 | 32,316 |
| Trade and other payables | 261,237 | (92,777) |
| Net cash flows used in operating activities | (13,303) | (659,092) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Expenditures on exploration and evaluation assets | (125,437) | (744,431) |
| Exploration cost recoveries | 28,567 | - |
| Net cash flows used in investing activities | (96,870) | (744,431) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loans received | 130,000 | 65,000 |
| Proceeds from issue of shares | - | 995,334 |
| Share issue costs | - | (113,059) |
| Net cash flows from financing activities | 130,000 | 947,275 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 19,827 | (456,248) |
| Effect of exchange rates on cash holdings in foreign currencies | (19,153) | (18,218) |
| CASH AND CASH EQUIVALENTS, BEGINNING | 24,406 | 498,872 |
| CASH AND CASH EQUIVALENTS, ENDING | 25,080 | 24,406 |

See accompanying notes to the consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Montero Mining and Exploration Ltd (“Montero” or the “Company”) 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 address is Suite 1704, 20 Bloorview Place, Toronto, Ontario M2J 0A6.

Going Concern

These consolidated 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 December 31, 2014, the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through 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 substantial doubt about the Company’s ability to continue as a going concern. When further funds are required, they will be financed through a private placement of common shares or by debt instruments. Subsequent to the year-end, the Company received proceeds of \$79,326 in loans (Note 23).

2. STATEMENT OF COMPLIANCE

The consolidated 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”).

The consolidated financial statements were authorized for issue on April 28, 2015 by the directors of the Company.

3. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars (“CAD”), unless otherwise indicated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements include the accounts of Montero, the parent company, and its controlled subsidiaries, after the elimination of all intercompany balances and transactions. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceased. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

a) Basis of consolidation – Continued

The Company's controlled subsidiaries included in these consolidated financial statements are:

| Name | Country of Incorporation | Ownership |
|--------------------------------------|---------------------------------|------------------|
| Montero Resource Holding Limited | British Virgin Islands | 100% |
| Wigu Hill (BVI) Limited | British Virgin Islands | 100% |
| Lumba (BVI) Limited | British Virgin Islands | 100% |
| Montero Projects Limited | British Virgin Islands | 100% |
| Montero Wigu Hill (Tanzania) Limited | Tanzania | 100% |
| Montero Resources Limited | Tanzania | 100% |
| Lumba Exploration Limited | Tanzania | 100% |
| Wigu Hill Mining Company Limited | Tanzania | 82.25% |
| Lumba Mining Company Limited | Tanzania | 82.25% |
| Eurozone Investments Limited | British Virgin Islands | 100% |
| Phosagro (Pty) Ltd. | South Africa | 100% |

b) Significant accounting judgements, estimates and assumptions

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Estimates and assumptions are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

i) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period when the new information becomes available.

ii) Acquisitions

The Company must use judgement and make estimates to determine the allocation of the purchase consideration based on the fair market value of the assets and liabilities acquired.

iii) Other judgments

Other key areas where the Company is required to make judgements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty, whether an acquisition constitutes a business combination or an acquisition of assets and the determination of the functional currency of the parent company and its subsidiaries.

iv) Other estimates and assumptions

Other key areas where the Company is required to make estimates and assumptions are the useful lives of plant and equipment, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for asset retirement obligations and contingent liabilities.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

c) Exploration and evaluation assets

The Company records and carries its interest in exploration and evaluation assets at cost. These capitalized costs include the direct costs of acquisition, exploration and the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. Government tax credits received are recorded as a reduction of the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment when the facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

The Company's criterion for testing impairment includes, but is not limited to, when:

- i) Exploration rights for a specific area expired or are expected to expire in the near future and these rights are not expected to be renewed;
- ii) Substantive expenditures on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- iii) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and / or
- iv) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within plant and equipment.

When an impairment test is performed and, as a result of this test, it is determined that the carrying amount of an exploration and evaluation asset exceeds its recoverable amount, a provision is made for the decline in value and charged against operations in the year.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

d) Farm outs

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized or expensed.

e) Joint arrangements

A joint arrangement is an arrangement in which the Company and one or more other parties have joint control. Joint arrangements are classified as either joint operations or joint ventures depending on the rights and obligations of the parties to the arrangement. Under a joint operation, the parties have rights to the assets and obligations for the liabilities of the arrangement and for these arrangements the Company accounts for its share of assets, liabilities, revenue and expenses. Under a joint venture, parties have the rights to the net assets of the arrangement and for these arrangements the Company accounts for the investment using the equity method. As at December 31, 2014, the Company does not have any investments in joint arrangements.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

f) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Depreciation is provided at rates calculated to write off the cost of the asset over their estimated useful lives. Depreciation is calculated on a declining balance basis on its assets at the following rates: field equipment and vehicles at 30% per annum and furniture and fixtures at 20% per annum.

g) Asset retirement and environmental obligations

The fair value of a liability for an asset retirement or environmental obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement or environmental obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement or environmental cost is charged to operations using a systematic and rational method and the resulting liability is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As of December 31, 2014, the Company does not have any asset retirement or environmental obligations.

h) Impairment of assets

The carrying amount of the Company's assets (which include exploration and evaluation assets and plant and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

i) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term highly liquid interest bearing investments that are readily convertible into cash with a remaining term to maturity of 90 days or less when acquired.

j) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is credited to the share-based payment reserve. The fair value of options is determined using the *Black-Scholes Option Pricing Model*. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted, shall be based on the number of equity instruments that eventually vest.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

k) Income taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

l) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent company, Montero, is the Canadian dollar, the functional currency of the Company's subsidiaries located in Tanzania and BVI is the United States dollar, and the functional currency of its subsidiary located in South Africa is the South African Rand. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

On initial recognition, foreign currency transactions are translated into the functional currency at the exchange rate in effect at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive loss.

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, whereas non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognized in the statement of comprehensive loss in the period in which they arise. When a gain or loss on non-monetary items is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the statement of comprehensive loss, any exchange component of that gain or loss is also recognized in the statement of comprehensive loss.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

l) Foreign currency translation – *Continued*

At the end of each reporting period, the subsidiaries translate their results and financial position into the presentation currency of the Company which is the Canadian dollar. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial period end. Income and expenses for each statement of comprehensive loss are translated at the average exchange rates. Equity transactions are translated using the exchange rate at the date of the transaction. All resulting exchange differences are recognized in the Company's foreign currency translation reserve in other comprehensive income. These exchange differences are recognized in the statement of loss in the period in which the operation is disposed.

m) Loss per share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

n) Financial instruments

Initial recognition and measurement

Financial assets and liabilities are initially recognized at fair value. Financial assets are classified at initial recognition as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Company does not use any hedging instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- 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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. Financial assets at fair value through profit or loss includes financial assets held-for-trading which represent assets that are acquired for the purpose of selling or repurchasing in the near term. These financial assets are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss. The Company does not have any financial assets classified at fair value through profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss. The Company classifies cash and cash equivalents, trade and other receivables, deposits and reclamation bonds as loans and receivables.

Held-to-maturity investments represent assets to be held until a specific time period and are initially measured at fair value, including transaction costs. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss. The Company does not have any financial assets classified as held-to-maturity investments.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

n) Financial instruments – Continued

Available-for-sale financial assets are investments in equity instruments that are measured at fair value with gains and losses, net of applicable taxes, included in other comprehensive income until the asset is removed from the statement of financial position. Once this occurs, the resultant gains or losses are recognized in comprehensive loss. Any permanent impairment of available-for-sale financial assets is also included in the statement of comprehensive loss. The Company does not have any financial assets classified as available-for-sale.

Financial liabilities are initially recorded at fair value and are designated as fair value through profit or loss or other financial liabilities. Derivative financial liabilities are classified as fair value through profit or loss and are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss. Non-derivative financial liabilities are recorded at amortized cost using the effective interest rate method. Any amortization of the effective interest rate method is recognized in finance cost in the statement of comprehensive loss. The Company's non-derivative financial liabilities consist of trade and other payables and loan payable.

Financial assets, others than those at fair value through profit and loss are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The amount of impairment loss is recognized in the statement of comprehensive loss. Any subsequent reversals of impairment are also recognized in the statement of comprehensive loss, except for those related to available-for-sale financial assets.

o) Accounting standard amendments and interpretations adopted

The following amendments to accounting standards and accounting interpretations were adopted effective January 1, 2014 and did not have an impact on the Company's financial statements:

New interpretation IFRIC 21 “Levies”

This is an interpretation of IAS 37 “Provisions, contingent liabilities and contingent assets”. The interpretation 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.

Amendments to IAS 32 “Financial Instruments: Presentation”

These amendments address inconsistencies when applying the offsetting requirements.

p) Accounting standards and interpretations issued but not yet effective

The following accounting standard has been issued but is not yet required to be adopted:

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has not early-adopted this new standard and is currently assessing the impact that it will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

| | December 31, 2014 | December 31, 2013 |
|--------------------|----------------------|----------------------|
| | \$ | \$ |
| Cash held at banks | 25,080 | 24,406 |

Cash held at banks earns no interest.

6. TRADE AND OTHER RECEIVABLES

The Company had no trade receivables as at December 31, 2014 or December 31, 2013. Other receivables comprise amounts due from local governments for reimbursement of amounts related to local sales taxes. These amounts are non-interest bearing and are due within twelve months.

7. HELD FOR SALE ASSETS

On November 18, 2011, the Company's subsidiary, Montero Projects Limited ("Montero Projects") acquired the shares in Eurozone Investments Limited ("Eurozone") which holds interests in subsidiary companies that hold phosphate exploration projects in South Africa (hereafter, "Phosco"). Montero Projects paid \$101,700 (United States dollars "USD" \$100,000) and issued 2,500,000 common shares of Montero, valued at \$750,000, and completed the acquisition of Eurozone. In 2012, management decided to sell these assets and so they were reclassified as held for sale assets. During the year ended December 31, 2014, management has been successful in finding a partner to further develop these assets, and therefore they have been reclassified from held for sale assets to reclamation bonds and exploration and evaluation assets (Note 9).

8. PLANT AND EQUIPMENT

| | Field Equipment | Vehicles | Furniture and Fixtures | TOTAL |
|----------------------------------|--------------------|---------------|---------------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Cost: | | | | |
| Balance, December 31, 2012 | 138,012 | 33,091 | 13,449 | 184,552 |
| Additions | - | - | - | - |
| Foreign exchange translation | 3,496 | 1,125 | 525 | 5,146 |
| Balance, December 31, 2013 | 141,508 | 34,216 | 13,974 | 189,698 |
| Additions | - | - | - | - |
| Foreign exchange translation | 3,069 | (91) | 1,868 | 4,846 |
| Balance, December 31, 2014 | 144,577 | 34,125 | 15,842 | 194,544 |
| Accumulated Depreciation: | | | | |
| Balance, December 31, 2012 | 68,789 | 11,239 | 4,715 | 84,743 |
| Additions | 22,036 | 6,053 | 3,595 | 31,684 |
| Balance, December 31, 2013 | 90,825 | 17,292 | 8,310 | 116,427 |
| Additions | 17,941 | 6,087 | 2,190 | 26,218 |
| Balance, December 31, 2014 | 108,766 | 23,379 | 10,500 | 142,645 |
| Net Book Value: | | | | |
| At December 31, 2013 | 50,683 | 16,924 | 5,664 | 73,271 |
| At December 31, 2014 | 35,811 | 10,746 | 5,342 | 51,899 |

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9. EXPLORATION AND EVALUATION ASSETS

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

| | December 31, 2014 | December 31, 2013 |
|-----------------------|----------------------|----------------------|
| | \$ | \$ |
| Tanzania - Wigu Hill | 1,044,090 | 9,912,655 |
| South Africa - Phosco | 1,308,047 | - |
| | 2,352,137 | 9,912,655 |

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 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).

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, 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 has not yet paid their share of these costs which at December 31, 2014 were determined to be \$1,410,384 (USD \$1,215,743) and 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 contribution required and advised that dilution will occur if payment is not received. The notice period for receipt of payment has expired and therefore Montero increased its ownership of the WHMC to 82.25%.

In common with all mining companies, licences are required to be renewed in order to maintain ownership. Montero regularly reviews its licences and meets the local governmental requirements on the licences it plans to renew. In particular, Montero has been granted a Retention Licence on its Wigu Hill Project which is valid until February 13, 2020.

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9. EXPLORATION AND EVALUATION ASSETS – Continued

a) Tanzania – Continued
Wigu Hill Project – Continued

During the year, the Company reviewed the status of the Wigu Hill Project and decided to record an impairment charge of \$9,674,088 to reflect the current challenging world markets and pricing for Rare Earth Elements (“REE”) applicable to the Wigu Hill Project, which in turn, lead to difficulty in raising funds to further advance this Project at this time. This revised carrying value is based on management’s estimate of the fair value of the Company’s interest in the Wigu Hill Project and is highly subjective and subject to changes over time. Future changes to this estimate could have a significant impact on the carrying value of the Wigu Hill Project.

b) South Africa

Phosco Project

On November 18, 2011, the Company’s subsidiary, Montero Projects acquired the shares in Eurozone which holds interests in subsidiary companies that hold phosphate exploration projects in South Africa (hereafter, “Phosco”). Montero Projects paid \$101,700 (United States dollars “USD” \$100,000) and issued 2,500,000 common shares of Montero, valued at \$750,000, and completed the acquisition of Eurozone. The Company now holds two licences covering the Duyker Eiland and Phillips Kraal areas.

On August 19, 2014, the Company entered into a letter agreement, which was subject to legal and technical due diligence, with Ovation Capital (a South Africa based investment firm) who would finance a pre-feasibility study (to be completed within 12 months of signing of the definitive agreement) to earn 10% of Phosco and would further finance a bankable feasibility study (to be completed within 24 months of signing the definitive agreement) to earn an additional 20% of Phosco, for a total potential ownership of 30% of Phosco. A definitive agreement outlining these terms was finalized and signed on March 2, 2015.

During the year, the Company decided not to proceed with exploration in one of its licence areas and therefore did not renew its licence there, resulting in an impairment charge of \$92,162 relating to its exploration and evaluation assets. In addition, an impairment charge of \$10,130 was recorded in conjunction with the reclamation bonds in this licence area.

The Company has a total of \$10,553 in reclamation bonds and deposits lodged with local governments in regards to any potential reclamation costs that may arise regarding its Phosco Project.

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9. EXPLORATION AND EVALUATION ASSETS – Continued

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

| | Tanzania | South Africa | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|------------------|------------------|------------------------------------|------------------------------------|
| | Wigu Hill | Phosco | | |
| | \$ | \$ | \$ | \$ |
| Property acquisition costs | | | | |
| Balance, beginning of year | 1,323,492 | - | 1,323,492 | 1,340,129 |
| Foreign currency translation | 95,727 | 266 | 95,993 | 85,236 |
| Additions | 15,539 | - | 15,539 | 9,365 |
| Impairment | (1,163,833) | (55,432) | (1,219,265) | (111,238) |
| Reclassification from Held for Sale assets | - | 839,517 | 839,517 | - |
| Balance, end of year | 270,925 | 784,351 | 1,055,276 | 1,323,492 |
| Exploration and evaluation costs | | | | |
| Balance, beginning of year | 8,589,163 | - | 8,589,163 | 7,389,267 |
| Foreign currency translation | 601,555 | (17) | 601,538 | 540,161 |
| Costs incurred during the year: | | | | |
| Field and camp costs | 25,790 | - | 25,790 | 121,604 |
| Geochemical and metallurgical | - | 3,716 | 3,716 | 41,399 |
| Geological consulting | 13,078 | 11,209 | 24,287 | 190,995 |
| Geophysical and maps | 110 | 637 | 747 | 318 |
| Maintenance and environmental | - | 1,078 | 1,078 | 46,995 |
| Motor vehicle costs | - | - | - | 16,914 |
| Project administration costs | 18,406 | - | 18,406 | 167,240 |
| Refinery hydromet and testing | 32,812 | - | 32,812 | 114,316 |
| Travel and accommodation | 2,506 | 556 | 3,062 | 20,472 |
| | 9,283,420 | 17,179 | 9,300,599 | 8,649,681 |
| Impairment | (8,510,255) | (36,730) | (8,546,985) | (60,518) |
| Reclassification from Held for Sale assets | - | 543,247 | 543,247 | - |
| | 8,510,255 | 506,517 | (8,003,738) | (60,518) |
| Balance, end of year | 773,165 | 523,696 | 1,296,861 | 8,589,163 |
| Total | 1,044,090 | 1,308,047 | 2,352,137 | 9,912,655 |

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10. TRADE AND OTHER PAYABLES

The components of trade and other payables is as follows:

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Trade payables | 239,708 | 156,836 |
| Amounts due to related parties (Note 18) | 611,788 | 432,908 |
| Accrued liabilities | 254,179 | 251,025 |
| | 1,105,675 | 840,769 |

These amounts are non-interest bearing and are normally settled within 90 day terms, with all amounts due within twelve months.

11. LOANS PAYABLE

These amounts are due to a company that has a director in common with the Company (\$170,000) and to a third party (\$25,000). The loans are unsecured, bear interest at 12% and were originally due on May 31, 2014 and have now been extended to a revised due date of May 31, 2015. The loans payable amounts also include \$18,077 of accrued interest. During the year ended December 31, 2014, interest of \$17,367 has been charged to finance costs (year ended December 31, 2013 - \$710). Subsequent to the year-end, a further \$79,326 was advanced subject to the same terms noted above and are due on September 30, 2015 (Note 23).

12. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

At December 31, 2014 there were 71,031,679 issued and fully paid common shares outstanding (December 31, 2013 – 71,031,679).

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.

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12. SHARE CAPITAL – Continued

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.

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

| | December 31, 2014 | | December 31, 2013 | |
|--|------------------------------|--|------------------------------|---|
| | Number of Shares Issuable | Weighted Average Exercise Price \$ | Number of Shares Issuable | Weighted Average Exercise Price \$ |
| Options outstanding, beginning of year | 5,560,000 | 0.27 | 4,655,000 | 0.32 |
| Granted | - | - | 1,805,000 | 0.125 |
| Expired | (940,000) | 0.28 | (900,000) | 0.24 |
| Options outstanding and exercisable, end of year | 4,620,000 | 0.27 | 5,560,000 | 0.27 |

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.

The stock options expire as follows: 1,350,000 options with an average exercise price of \$0.17 per share in 2015, 1,865,000 options with an average exercise price of \$0.46 in 2016 and 1,405,000 with an average exercise price of \$0.125 in 2018. The weighted average remaining contractual life of the outstanding stock options is 1.61 years.

Subsequent to the year-end, 1,125,000 options with an average exercise price of \$0.15 expired unexercised (Note 23).

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13. WARRANTS

The issued and outstanding warrants are comprised of the following:

| Date of expiry | Warrant Reserve | Number of warrants | Exercise Price |
|--|------------------------|---------------------------|-----------------------|
| | \$ | | \$ |
| January 18, 2015 | 471,254 | 11,200,000 | 0.25 |
| January 18, 2015* | 55,243 | 531,020 | 0.125 |
| Balance, December 31, 2014 and 2013 | 526,497 | 11,731,020 | |

*These warrants entitle the holder to acquire a unit comprised of one common share and one common share purchase warrant to purchase one additional common share at a price of \$0.25 per share until January 18, 2015.

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

| | December 31, 2014 | | December 31, 2013 | |
|---|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | Number of Shares Issuable | Weighted Average Exercise Price | Number of Shares Issuable | Weighted Average Exercise Price |
| | | \$ | | \$ |
| Warrants outstanding, beginning of year | 11,731,020 | 0.24 | 10,137,159 | 0.73 |
| Granted | - | - | 11,731,020 | 0.24 |
| Expired | - | - | (10,137,159) | 0.73 |
| Warrants outstanding, end of year | 11,731,020 | 0.24 | 11,731,020 | 0.24 |

At December 31, 2014, the weighted average remaining contractual life of the outstanding warrants was 0.05 years.

All of the warrants expired unexercised subsequent to the year-end (Note 23).

The warrant reserve records the fair value of warrants associated with private placements and the fair value of agent's warrants until such time that the warrants have expired, at which time the corresponding amount will be transferred to share-based payment reserve. If the warrants are exercised prior to expiry, the corresponding amount will be transferred to share capital.

14. SHARE-BASED PAYMENT RESERVE

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

| | |
|--|------------------|
| Expired warrants | 4,559,975 |
| Expired stock options | 778,256 |
| Unexpired stock options | 1,006,451 |
| Balance, December 31, 2014 and 2013 | 6,344,682 |

The share-based payment reserve records items recognized as stock-based compensation expense, the fair value of expired warrants associated with private placements and the fair value of agent's warrants. If the stock options are exercised prior to expiry, the corresponding amount will be transferred to share capital.

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15. INCOME TAXES

A reconciliation of current taxes at the statutory tax rates with the reported taxes is as follows based on an income tax rate of 26.5% (2013 – 26.5%):

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--|---------------------------------|---------------------------------|
| | \$ | \$ |
| Net loss before income taxes | (10,069,387) | (910,158) |
| Expected tax recovery at statutory rates | (2,668,388) | (241,192) |
| Decrease (increase) resulting from: | | |
| Permanent differences | (125,942) | (22,940) |
| Change in valuation allowance | 2,886,113 | 296,994 |
| Other | (91,783) | (32,862) |
| Income tax recovery | - | - |

The significant components of the Company's deferred income tax assets and liabilities are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Non-capital losses carried forward | 3,838,994 | 2,784,880 |
| Exploration and evaluation assets and equipment | 1,179,266 | (713,759) |
| Other | 67,433 | 128,459 |
| Total | 5,085,693 | 2,199,580 |
| Valuation allowance | (5,085,693) | (2,199,580) |
| Deferred tax liabilities | - | - |

Management has determined that the realization of these deferred income tax assets is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has not recognized the potential deferred income tax assets.

The following summarizes the expiry of deductible temporary differences for which no deferred tax asset has been recognized.

| | Canadian non-capital losses | Canadian equipment and resource pools | Africa non-capital losses | Africa equipment and resource pools | Canadian share issue costs |
|-----------|-----------------------------------|---|---------------------------------|---|-------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2026 | 1,002 | | | | |
| 2027 | 187,278 | | | | |
| 2028 | 282,809 | | | | |
| 2029 | 326,707 | | | | |
| 2030 | 646,312 | | | | |
| 2031 | 1,921,687 | | | | |
| 2032 | 1,343,367 | | | | |
| 2033 | 769,752 | | | | |
| 2034 | 484,425 | | | | |
| No expiry | - | 1,489,366 | 7,529,032 | 2,634,680 | 239,886 |
| | 5,963,339 | 1,489,366 | 7,529,032 | 2,634,680 | 239,886 |

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16. 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 and therefore the effect would be antidilutive.

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Net loss attributable to owners of the parent company | \$ (10,069,387) | \$ (910,158) |
| Weighted average number of ordinary shares outstanding | 71,031,679 | 70,437,066 |
| Basic and diluted loss per ordinary share | \$ (0.14) | \$ (0.01) |

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

17. 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 9.

18. RELATED PARTY TRANSACTIONS

Key management personnel compensation

| | Year ended December 31 | |
|---|------------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| <i>Compensation of directors</i> | | |
| Short-term benefits | - | 32,000 |
| Share-based payments | - | 16,307 |
| | - | 48,307 |
| <i>Compensation of key management personnel</i> | | |
| Short-term benefits | 79,322 | 228,772 |
| Share-based payments | - | 34,533 |
| | 79,322 | 263,305 |
| Total remuneration of directors and key management personnel | 79,322 | 311,612 |

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18. RELATED PARTY TRANSACTIONS – Continued

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.

| | Year ended December 31 | |
|--|------------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| <i>Exploration and evaluation asset transactions</i> | | |
| Geological consulting | 25,580 | 20,678 |
| Other | 17,886 | 46,561 |
| Total exploration and evaluation asset transactions | 43,466 | 67,239 |
| <i>Operating expense (income) transactions</i> | | |
| Consulting, directors', administrative and management fees | 48,000 | 80,183 |
| General and administrative | 12,000 | 12,000 |
| Shareholder and regulatory | - | 12,269 |
| Finance costs | 17,367 | 710 |
| Interest and other income | - | (14,172) |
| | 77,367 | 90,990 |
| Total trading transactions with related parties | 120,833 | 158,229 |

Related party balances

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

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Due to related parties (Note 10) | 611,788 | 432,908 |
| Loans payable (Note 11) | 184,814 | 65,710 |

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. The terms of the loans payable are outlined in Note 11.

19. 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.

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19. SEGMENTED INFORMATION – Continued

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

| As at December 31, 2014 | | | | |
|-----------------------------------|---------------|------------------|---------------------|------------------|
| | Canada | Tanzania | South Africa | Total |
| | \$ | \$ | \$ | \$ |
| Reclamation bonds | - | - | 10,553 | 10,553 |
| Plant and equipment | - | 51,899 | - | 51,899 |
| Exploration and evaluation assets | - | 1,044,090 | 1,308,047 | 2,352,137 |
| Total non-current assets | - | 1,095,989 | 1,318,600 | 2,414,589 |

| As at December 31, 2013 | | | | |
|-----------------------------------|---------------|------------------|---------------------|------------------|
| | Canada | Tanzania | South Africa | Total |
| | \$ | \$ | \$ | \$ |
| Plant and equipment | - | 73,271 | - | 73,271 |
| Exploration and evaluation assets | - | 9,912,655 | - | 9,912,655 |
| Total non-current assets | - | 9,985,926 | - | 9,985,926 |

20. NON-CASH TRANSACTIONS

During the year ended December 31, 2014 and 2013, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

| | December 31, 2014 | December 31, 2013 |
|---------------------------------------|--------------------------|--------------------------|
| | \$ | \$ |
| Shares issued for debt settlement | - | 643,077 |
| Warrants issued for share issue costs | - | 55,243 |

21. 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.

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21. CAPITAL MANAGEMENT – Continued

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 borrowings from related parties. 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 excess 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.

22. 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 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. 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 loans payable are due on May 31, 2015. The Company's trade and other payables are generally due within 90 days, with all amounts due within twelve months.

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22. RISK MANAGEMENT – Continued

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 a fixed interest rate on its loans payable. The effect of interest rate changes on the Company is insignificant.

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 December 31, 2014 and 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.

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2014 the following events took place:

- a) On January 18, 2015, 11,731,020 warrants expired unexercised.
- b) On January 25, 2015, 1,125,000 stock options, with a weighted average exercise price of \$0.15, expired unexercised.
- c) In March, 2015, the Company received additional amounts totalling \$79,326 in regards to loans payable, which are subject to the terms as described in Note 11. These additional loans payable are due on September 30, 2015.