
MONTERO MINING AND EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016
Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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, 2017 and 2016, and the consolidated statements of comprehensive income (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 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, 2017 and 2016, 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.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 25, 2018

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

	Notes	December 31, 2017	December 31, 2016
ASSETS		\$	\$
Current assets			
Cash	5	222,580	4,589
Other receivables	6	2,650	1,426
Prepaid expenses and deposits		15,932	6,240
Total current assets		241,162	12,255
Non-current assets			
Reclamation bonds	8	9,393	9,393
Plant and equipment	7	5,725	14,950
Exploration and evaluation assets	8	2,498,177	2,493,536
Total non-current assets		2,513,295	2,517,879
TOTAL ASSETS		2,754,457	2,530,134
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	9,16	197,371	311,138
Loans payable	10,16	-	625,959
Total current liabilities		197,371	937,097
SHAREHOLDERS' EQUITY			
Equity attributable to the owners of the Company			
Share capital	11	15,928,556	14,448,342
Share-based payment reserve	12	6,871,179	6,871,179
Foreign currency translation reserve		995,765	1,072,992
Accumulated deficit		(21,238,414)	(20,799,476)
Total shareholders' equity		2,557,086	1,593,037
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,754,457	2,530,134

Subsequent events 21

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 INCOME (LOSS)
(Expressed in Canadian dollars)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
		\$	\$
EXPENSES			
Consulting, directors', administrative and management fees	16	215,439	168,725
Depreciation	7	9,564	13,825
General and administrative	16	25,297	26,725
Impairment of exploration and evaluation assets	8	-	11,681
Other expenses		33,435	16,351
Professional fees		34,508	25,105
Project investigation costs	8,16	81,062	34,264
Shareholder and regulatory		41,215	23,543
OPERATING LOSS		(440,520)	(320,219)
OTHER ITEMS			
Finance costs	10,16	-	(54,898)
Foreign exchange gain		1,582	14,171
Gain on debt settlement	11	-	458,652
		1,582	417,925
NET INCOME (LOSS)		(438,938)	97,706
OTHER COMPREHENSIVE INCOME (LOSS)			
Exchange difference on translating foreign operations		(77,227)	(32,318)
COMPREHENSIVE INCOME (LOSS)		(516,165)	65,388
EARNINGS (LOSS) PER SHARE			
- BASIC AND DILUTED	14	\$ (0.03)	\$ 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	Share Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Deficit	TOTAL EQUITY	
		Number of Shares	\$	\$	\$	\$	
Balance, December 31, 2015		8,878,960	13,906,274	6,871,179	1,105,310	(20,897,182)	985,581
Shares issued for debt settlement	11	1,715,062	548,820	—	—	—	548,820
Share issue costs	11	—	(6,752)	—	—	—	(6,752)
Net income and comprehensive income		—	—	—	(32,318)	97,706	65,388
Balance, December 31, 2016		10,594,022	14,448,342	6,871,179	1,072,992	(20,799,476)	1,593,037
Shares issued for cash	11	3,675,000	735,000	—	—	—	735,000
Shares issued for debt settlement	10,11	4,101,347	820,270	—	—	—	820,270
Share issue costs	11	—	(75,056)	—	—	—	(75,056)
Net loss and comprehensive loss		—	—	—	(77,227)	(438,938)	(516,165)
Balance, December 31, 2017		18,370,369	15,928,556	6,871,179	995,765	(21,238,414)	2,557,086

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, 2017	Year ended December 31, 2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	(438,938)	97,706
Adjustments to income (loss) for non-cash items:		
Depreciation	9,564	13,825
Impairment of exploration and evaluation assets	-	11,681
Non-cash interest expense	-	54,898
Gain on debt settlement	-	(458,652)
Net changes in non-cash working capital items:		
Trade and other receivables	(1,224)	8,983
Prepaid expenses and deposits	(9,692)	1,460
Trade and other payables	82,618	237,709
Net cash flows used in operating activities	(357,672)	(32,390)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(900)	-
Expenditures on exploration and evaluation assets	(83,381)	(102,734)
Net cash used in investing activities	(84,281)	(102,734)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of shares	735,000	-
Share issue costs	(75,056)	(6,752)
Loans received	-	137,587
Net cash flows from financing activities	659,944	130,835
NET INCREASE (DECREASE) IN CASH	217,991	(4,289)
CASH, BEGINNING	4,589	8,878
CASH, ENDING	222,580	4,589

See accompanying notes to the consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(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 Namibia.

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 789 West Pender Street, Suite 810, Vancouver, BC V6C 1H2.

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, 2017, 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.

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 25, 2018 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, 2017 AND 2016
(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%
Eurozone Investments Limited	British Virgin Islands	100%
Soris Lithium Proprietary Limited	Namibia	80%
Phosagro (Pty) Ltd.	South Africa	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%

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, 2017 AND 2016
(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, 2017, the Company does not have any investments in joint arrangements.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

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, 2017, 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
DECEMBER 31, 2017 AND 2016
(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 and the functional currency of the Company's subsidiaries located in Tanzania and BVI is the United States dollar and the functional currency of the Company's subsidiaries located in South Africa is the Canadian dollar. 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
DECEMBER 31, 2017 AND 2016
(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
DECEMBER 31, 2017 AND 2016
(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 standards and interpretations issued but not yet effective

Certain accounting standards and interpretations are issued but which are not required to be adopted for the current reporting period. These are as follows:

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.

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.

5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	December 31, 2017	December 31, 2016
Cash held at banks	\$ 222,580	\$ 4,589

Cash held at banks earns no interest.

6. OTHER RECEIVABLES

The Company had no trade receivables as at December 31, 2017 or December 31, 2016. Other receivables comprise amounts due from local governments for reimbursement of amounts related to local sales taxes and other sundry amounts. These amounts are non-interest bearing and are due within twelve months.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

7. PLANT AND EQUIPMENT

	Field Equipment	Furniture and Fixtures	TOTAL
	\$	\$	\$
Cost:			
Balance, December 31, 2015	148,565	19,486	168,051
Additions	-	-	-
Foreign exchange translation	(800)	(80)	(880)
Balance, December 31, 2016	147,765	19,406	167,171
Additions	-	900	900
Foreign exchange translation	(350)	(211)	(561)
Balance, December 31, 2017	147,415	20,095	167,510
Accumulated Depreciation:			
Balance, December 31, 2015	124,511	13,885	138,396
Additions	11,388	2,437	13,825
Balance, December 31, 2016	135,899	16,322	152,221
Additions	7,813	1,751	9,564
Balance, December 31, 2017	143,712	18,073	161,785
Net Book Value:			
At December 31, 2016	11,866	3,084	14,950
At December 31, 2017	3,703	2,022	5,725

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

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

	December 31, 2017	December 31, 2016
	\$	\$
South Africa - Phosco	1,345,924	1,333,501
Tanzania - Wigu Hill	1,152,253	1,160,035
	2,498,177	2,493,536

a) South Africa
Phosco Project

On November 18, 2011, the Company's subsidiary, Montero Projects Limited ("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 March 2, 2015, a definitive Exploration and Co-development Agreement ("Agreement") was signed between Montero Projects and Mellosat Proprietary Limited, Montero's subsidiaries, and Business Venture Investments No. 1709 Proprietary Limited ("BVI"), an Ovation company whereby BVI would finance a Pre-feasibility Study (to be completed within 12 months of signing of the Agreement) to earn 10% of Phosco and would further finance a Bankable Feasibility Study (to be completed within 24 months of signing the Agreement) to earn an additional 20% of Phosco, for a total potential ownership of 30% of Phosco. However, Ovation was unable to complete its commitments to the work program, and so this Agreement was terminated by Montero on October 2, 2017.

The Company has a total of \$9,393 (December 31, 2016 - \$9,393) in reclamation bonds and deposits lodged with local governments in regards to any potential reclamation costs that may arise regarding its Phosco Project.

b) 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).

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

8. 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, 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, 2017 were determined to be \$1,520,798 (USD \$1,212,274) 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.

c) Namibia
Soris Lithium Project

On October 10, 2017, the Company entered into a Letter of Intent ("LOI") with Frovio Investment ("Frovio") and Mickal Tjituka ("Tjituka"), the owner of Frovio, to acquire up to an 80% interest in a newly formed company ("Newco") that will hold the mining claims that make up the Soris Lithium Project (the "Project"). Frovio has applied for eight mining claims making up the Project and will transfer them into Newco in exchange for a 20% interest. Montero will earn the remainder 80% interest by committing to spending \$1 million on the Project over a three year period. The LOI indicated a three month due diligence period and Montero requested an extension until November 10, 2018, which has been granted. If successful results are achieved after this due diligence period, Frovio and Montero will complete a definitive agreement covering this Project. Montero has established a new subsidiary in Namibia, Soris Mining (Proprietary) Ltd. as required by the LOI above, and entered into a shareholder's Agreement with Tjituka covering its term of operations.

EPL 6162 Lithium Project

Subsequent to the year-end, the Company entered into a LOI with Mr. Esegial Xamseb, a Namibian national, to acquire an 80% interest in the Exclusive Prospecting Licence 6162 ("EPL 6162 Lithium Project"). Under the terms of the LOI, Montero can earn an 80% interest in the EPL 6162 Lithium Project by spending \$1,000,000 over a three year period. There is due diligence period of three months provided (Note 21).

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS – Continued

UIS Lithium Tin Tailings Project

Subsequent to the year-end, the Company entered into a binding Heads of Agreement (“HOA”) with Namib Base Minerals CC (“NBM”) and Namibia Silica CC (“NBS”), (collectively the “Owners”) to acquire a 95% interest in the UIS Lithium Tin Tailings Project. Under the terms of the HOA, Montero can earn a 95% interest in the UIS Lithium Tin Tailings Project by spending United States dollars \$1,425,000 over a three year period. There is due diligence period of two months provided (Note 21).

Details of the Company’s exploration and evaluation assets as of December 31, 2017 and 2016 are as follows:

	South Africa	Tanzania	Year ended December 31, 2017	Year ended December 31, 2016
	Phosco	Wigu Hill		
	\$	\$	\$	\$
Property acquisition costs				
Balance, beginning of year	784,351	403,352	1,187,703	1,155,669
Foreign currency translation	-	(28,704)	(28,704)	(11,684)
Additions	-	48,319	48,319	55,399
Impairment	-	-	-	(11,681)
Balance, end of year	784,351	422,967	1,207,318	1,187,703
Exploration and evaluation costs				
Balance, beginning of year	549,150	756,683	1,305,833	1,374,927
Foreign currency translation	-	(50,036)	(50,036)	(26,514)
Costs incurred during the year:				
Field and camp costs	-	2,008	2,008	11,849
Geological consulting	-	5,863	5,863	(44,482)
Geophysical and maps	3,403	-	3,403	3,766
Maintenance and environmental	9,020	-	9,020	(32,339)
Project administration costs	-	10,791	10,791	17,232
Travel and accommodation	-	3,977	3,977	1,394
Balance, end of year	561,573	729,286	1,290,859	1,305,833
Total	1,345,924	1,152,253	2,498,177	2,493,536

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

9. TRADE AND OTHER PAYABLES

The components of trade and other payables is as follows:

	December 31, 2017	December 31, 2016
	\$	\$
Trade payables	67,122	94,972
Amounts due to related parties (Notes 11 and 16)	50,549	135,246
Accrued liabilities	79,700	80,920
	197,371	311,138

These amounts are non-interest bearing with all amounts due within twelve months. During the year, the Company settled debts totalling \$820,270 (of which \$625,959 related to loans payable (Note 10) and the balance of \$194,311 related to trade and other payables) by the issuance of 4,101,347 common shares valued at \$820,270 (Note 11).

10. LOANS PAYABLE

The loans payable represented loans and accrued interest payable due to companies that have a director in common with the Company totalling \$591,688 and to a third party totalling \$34,271, as of December 31, 2016. During the year ended December 31, 2017, the lenders agreed to waive any further interest for the year and settled all of these loans and accrued interest with common shares.

During the year, the Company settled debts totalling \$820,270 (of which \$625,959 related to loans payable with the balance of \$194,311 related to trade and other payables (Note 9) by the issuance of 4,101,347 common shares valued at \$820,270 (Note 11).

11. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

At December 31, 2017 there were 18,370,369 (December 31, 2016 – 8,878,960) issued and fully paid common shares outstanding, restated for the share consolidation outlined below.

Share consolidation

On July 13, 2017, the Company received approval from the TSX-V for the consolidation of its issued and outstanding common shares on the basis of one new post-consolidation share for every eight pre-consolidation shares.

Share consolidation

	Number of shares	Amount \$
Balance, December 31, 2015	71,031,679	13,906,274
Balance, December 31, 2015 post-consolidation <i>*(rounded due to fractional shares)</i>	8,878,960*	13,906,274

All share and per share references in these financial statements have been reflected on a post-consolidation basis. All stock options and warrants have been adjusted on the same basis, with a proportionate adjustment to the exercise price.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

11. SHARE CAPITAL – Continued

Changes during 2017

Debt settlement

On July 7, 2017, the Company announced that it completed a debt settlement transaction (the “Debt Settlement”) with certain creditors (“Creditors”), including Creditors who are related parties of the Company, providing for the settlement of all of the loans payable of \$625,959 and trade and other payables of \$194,311 totalling \$820,270 of its outstanding debts, which will be settled through the issuance of an aggregate of 32,810,000 Special Warrants (as herein defined) of the Company at a deemed issue price of \$0.025 per Special Warrant. The Debt Settlement was subject to the completion of the Consolidation Condition (as herein defined) and final TSX-V approval, both of which were satisfied effective July 13, 2017 as described below. Share issue costs of \$5,996 were incurred in conjunction with this Debt Settlement.

Special Warrant Financing

As at June 30, 2017, the company received cash of \$735,000 for subscriptions for special warrants and on July 13, 2017, the Company announced that it completed a non-brokered private placement of 29,400,000 special warrants (the “Special Warrants”) at a price of \$0.025 per Special Warrant (the “Subscription Price”) for gross proceeds of \$735,000 (the “Offering”). Each eight Special Warrants are exercisable into one common share if the Consolidation Condition (as herein defined) is satisfied on or before September 30, 2017. Share issue costs of \$69,060 were incurred in conjunction with this Offering.

The Offering was made pursuant to the grant of a “discretionary waiver” of the TSX-V’s minimum \$0.05 pricing requirement (the “Waiver”) and is subject to acceptance by the TSX-V. With respect to the Waiver, the Company is to conduct a share consolidation of its outstanding common shares on the basis of one post-consolidation common share for each eight pre-consolidation common shares (the “Share Consolidation”), or such other ratio as may be agreed in writing by the Company and the subscribers to the Offering (the “Consolidation Condition”) which would result in a post-consolidation conversion price equal to or greater than \$0.05 per common share on or before September 30, 2017 (the “Consolidation Deadline”).

If the Consolidation Condition was satisfied on or before the Consolidation Deadline, the Special Warrants shall be deemed to be exercised for no further consideration (without any further action on the part of the Special Warrant holders) on the date of the Consolidation Condition. However, if the Consolidation Condition was not satisfied on or before the Consolidation Deadline, the Special Warrants shall be redeemed at the Subscription Price with interest payable at the rate of 10% per annum.

The Company received shareholder approval of the Share Consolidation at the annual and special meeting of shareholders held on June 30, 2017 and received final TSX-V approval on July 13, 2017, thereby satisfying the Consolidation Condition by the Consolidation Deadline.

Effective July 13, 2017, the 32,810,000 Special Warrants issued pursuant to the Debt Settlement noted above and the 29,400,000 Special Warrants issued pursuant to the Offering noted above were converted into common shares on the basis of eight Special Warrants for one post-consolidated common share.

The Company’s share capital position on December 31, 2017 after the Consolidation Condition was satisfied and the Special Warrants were exercised, is as follows:

	Number of shares	Amount \$
Balance, December 31, 2016 pre-consolidation	84,752,174	14,448,342
Share consolidation on basis of eight to one	10,594,022	-
Issued pursuant to Debt Settlement	4,101,347*	820,270
Issued pursuant to Offering	3,675,000	735,000
Share issue costs	-	(75,056)
Balance, December 31, 2017	18,370,369	15,928,556

**(rounded due to fractional shares)*

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

11. SHARE CAPITAL – Continued

Changes during 2016

Debt settlement

On October 21, 2016, the Company received TSX-V approval and completed a debt settlement transaction with certain vendors (“Debt Settlement”). Pursuant to the Debt Settlement, the Company settled trade and other payables totaling \$686,025 by issuing 13,720,495 common shares with a fair value of \$0.04 per common share and obtained the release of further trade and other payables totaling \$321,447 resulting in a gain on debt settlement of \$458,652. Share issue costs of \$6,752 were incurred in this Debt Settlement.

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, 2017		December 31, 2016	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		\$		\$
Options outstanding, beginning of year	175,625	1.00	408,750	2.56
Expired	-	-	(233,125)	3.68
Options outstanding and exercisable, end of year	175,625	1.00	175,625	1.00

The stock options expire in April, 2018 and the weighted average remaining contractual life of the outstanding stock options is less than 1 year.

12. SHARE-BASED PAYMENT RESERVE

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

	\$
Expired warrants	5,086,472
Expired stock options	1,730,797
Unexpired stock options	53,910
Balance, December 31, 2017	6,871,179

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.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

13. 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 27% (2016 – 26.5%):

	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Net income (loss) before income taxes	(438,938)	97,706
Expected tax expense (recovery) at statutory rates	(118,513)	25,892
Decrease (increase) resulting from:		
Permanent differences	9,664	(94,757)
Income tax rate changes	(89,985)	-
Change in valuation allowance	134,209	19,649
Other	64,626	49,216
Income tax recovery	-	-

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

	December 31, 2017	December 31, 2016
	\$	\$
Non-capital losses carried forward	5,321,967	5,236,371
Exploration and evaluation assets and equipment	112,772	74,115
Other	21,242	11,286
Total	5,455,981	5,321,772
Valuation allowance	(5,455,981)	(5,321,772)
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
	\$	\$	\$	\$	\$
2027	5,937				
2028	282,809				
2029	326,707				
2030	646,312				
2031	1,921,687				
2032	1,343,367				
2033	769,752				
2034	512,993				
2035	482,103				
2037	334,793				
No expiry	-	1,530,789	10,733,101	-	64,097
	6,626,460	1,530,789	10,733,101	-	64,097

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

14. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share amounts are calculated by dividing the net earnings (loss) for the year by the weighted average number of ordinary shares outstanding during the year. The basic and diluted earnings (loss) per share are the same since the Company reported a loss for 2017 and therefore the effect would be antidilutive and the exercise price of the stock options was higher than the weighted average share price for 2016.

	December 31, 2017	December 31, 2016
Net income (loss) attributable to owners of the parent company	\$ (438,938)	\$ 97,706
Weighted average number of ordinary shares outstanding	14,237,187	9,211,663
Basic and diluted earnings (loss) per ordinary share	\$ (0.03)	\$ 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.

15. 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 8.

16. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Year ended December 31	
	2017	2016
	\$	\$
<i>Compensation of key management personnel</i>		
Short-term benefits	140,344	79,586

Related party balances

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	
	2017	2016
	\$	\$
<i>Exploration and evaluation asset transactions</i>		
Geological consulting	5,863	12,464
Other	-	-
Total exploration and evaluation asset transactions	5,863	12,464
<i>Operating expense transactions</i>		
Consulting, directors', administrative and management fees	26,306	30,000
General and administrative	9,154	12,000
Project investigation costs	-	34,264
Finance costs	-	51,890
	35,460	128,154
Total trading transactions with related parties	41,323	140,618

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

16. RELATED PARTY TRANSACTIONS – Continued

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

	December 31, 2017	December 31, 2016
	\$	\$
Due to related parties (Note 9)	50,549	135,246
Loans payable (Note 10)	-	591,688

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.

17. 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, South Africa and Tanzania.

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

As at December 31, 2017				
	Canada	South Africa	Tanzania	Total
	\$	\$	\$	\$
Reclamation bonds	-	9,393	-	9,393
Plant and equipment	-	-	5,725	5,725
Exploration and evaluation assets	-	1,345,924	1,152,253	2,498,177
Total non-current assets	-	1,355,317	1,157,978	2,513,295

As at December 31, 2016				
	Canada	South Africa	Tanzania	Total
	\$	\$	\$	\$
Reclamation bonds	-	9,393	-	9,393
Plant and equipment	-	-	14,950	14,950
Exploration and evaluation assets	-	1,333,501	1,160,035	2,493,536
Total non-current assets	-	1,342,894	1,174,985	2,517,879

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

18. NON-CASH TRANSACTIONS

During the year ended December 31, 2017, the Company settled debts totalling \$820,270 by issuing 4,101,347 common shares valued at \$820,270. During the year ended December 31, 2016 the Company settled debts totalling \$686,025 by issuing 1,715,062 common shares with a fair value of \$548,820 and obtained the release of further amounts totalling \$321,447, for a total debt settlement of trade and other payables totalling \$1,007,472.

19. 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 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.

20. 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.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

20. RISK MANAGEMENT – Continued

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 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 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 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 were settled with common shares during the year and 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 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, the Tanzanian subsidiaries' functional currency is the United States dollar and the South African subsidiaries' functional currency is Canadian dollar. At December 31, 2017 and 2016, 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 zinc) to determine the appropriate course of action to be taken by the Company.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars)

21. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2017 the following events took place:

- a) On February 5, the Company announced it intends to raise funds through a private placement, raising a total of \$1,120,000 by offering 4,000,000 Units at a price of \$0.28 per Unit. Each Unit consists of one common share and one-half of a common share warrant, each warrant entitling the holder to purchase one common share at a price of \$0.40 per common share within 18 months of the closing of the private placement. On March 13, 2018, the Company announced that is extended the final closing date.

On April 10, 2018, the Company announced a re-pricing of the private placement. The private placement will now consist of up to 4,666,666 Units at a price of \$0.24 per Unit, raising a total of \$1,120,000. Each Unit consists of one common shares and one common share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.32 per common share within 18 months of the closing of the private placement.

- b) On March 1, 2018, the Company entered into a LOI with Mr. Esegial Xamseb ("Xamseb"), a Namibian national, to acquire an 80% interest in the Exclusive Prospecting Licence 6162 ("EPL 6162 Lithium Project"). Under the terms of the LOI, Montero can earn an 80% interest in the EPL 6162 Lithium Project by spending \$1,000,000 over a three year period. Montero shall pay Xamseb \$5,000 on signing of a definitive agreement and make annual payments to him of \$10,000 on the anniversary of the effective date. There is a due diligence period of three months provided.
- c) On March 5, 2018, the Company entered into a binding Heads of Agreement ("HOA") with Namib Base Minerals CC ("NBM") and Namibia Silica CC ("NBS"), (collectively the "Owners") to acquire a 95% interest in the UIS Lithium Tin Tailings Project. Under the terms of the HOA, Montero can earn a 95% interest in the UIS Lithium Tin Tailings Project by spending United States dollars ("USD") \$1,425,000 over a three year period. A payment of USD \$10,000 is required on the execution of the HOA, another payment of USD \$40,000 paid on the successful completion of due diligence, a further payment of USD\$275,000 shall be paid within 6 months and the remainder as staged milestone payments. There is a due diligence period of two months provided.
- d) Montero also entered into an agreement with Lithium Africa 1 ("LA1"), to acquire drilling and other data pertaining to the UIS Lithium tailings Project, within four months following a successful due diligence for the amount of \$125,000 in cash or shares at LA1's election.