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**MONTERO MINING AND EXPLORATION LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**March 31, 2016 and 2015**  
**Expressed in Canadian Dollars**

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The accompanying unaudited interim consolidated financial statements of Montero Mining and Exploration Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

|   | Notes | March 31,<br>2016 | December 31,<br>2015 |
|---|-------|-------------------|----------------------|
| <b>ASSETS</b>   |       | \$                | \$                   |
| <b>Current assets</b>                                   |       |                   |                      |
| Cash  |       | 9,201             | 8,878                |
| Other receivables                                       |       | 1,665             | 10,409               |
| Prepaid expenses and deposits                           |       | 10,525            | 7,700                |
| Total current assets                                    |       | 21,391            | 26,987               |
| <b>Non-current assets</b>                               |       |                   |                      |
| Reclamation bonds                                       | 4     | 9,393             | 9,393                |
| Plant and equipment                                     |       | 24,735            | 29,655               |
| Exploration and evaluation assets                       | 4     | 2,546,822         | 2,530,596            |
| Total non-current assets                                |       | 2,580,950         | 2,569,644            |
| <b>TOTAL ASSETS</b>                                     |       | <b>2,602,341</b>  | <b>2,596,631</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>             |       |                   |                      |
| <b>LIABILITIES</b>                                      |       |                   |                      |
| <b>Current liabilities</b>                              |       |                   |                      |
| Trade and other payables                                | 11    | 1,287,295         | 1,177,576            |
| Loans payable   | 5,11  | 480,155           | 433,474              |
| Total current liabilities                               |       | 1,767,450         | 1,611,050            |
| <b>SHAREHOLDERS' EQUITY</b>                             |       |                   |                      |
| <b>Equity attributable to the owners of the Company</b> |       |                   |                      |
| Share capital   | 6     | 13,906,274        | 13,906,274           |
| Share-based payment reserve                             | 8     | 6,871,179         | 6,871,179            |
| Foreign currency translation reserve                    |       | 1,039,455         | 1,105,310            |
| Accumulated deficit                                     |       | (20,982,017)      | (20,897,182)         |
| Total shareholders' equity                              |       | 834,891           | 985,581              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |       | <b>2,602,341</b>  | <b>2,596,631</b>     |

**Subsequent events**

16

**On behalf of the Board:**

*"Antony Harwood"*

\_\_\_\_\_  
Antony Harwood, Director

*"Antonia J Chapman"*

\_\_\_\_\_  
Antonia J Chapman, Director

See accompanying notes to the condensed consolidated financial statements

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

|  | Notes | Three months<br>ended<br>March 31, 2016 | Three months<br>ended<br>March 31, 2015 |
|--|-------|---|---|
|  |       | \$                                      | \$                                      |
| <b>EXPENSES</b>  |       |   |   |
| Consulting, directors', administrative and management fees | 11    | 49,464                                  | 56,239                                  |
| Depreciation   |       | 3,567                                   | 5,347                                   |
| General and administrative                                 | 11    | 7,042                                   | 9,423                                   |
| Other expenses   |       | 4,654                                   | 7,252                                   |
| Professional fees  |       | 7,240                                   | 1,927                                   |
| Shareholder and regulatory                                 |       | 6,908                                   | 11,886                                  |
| <b>OPERATING LOSS</b>                                      |       | <b>(78,875)</b>                         | <b>(92,074)</b>                         |
| <b>OTHER ITEMS</b>   |       |   |   |
| Finance costs  | 5,11  | (11,682)                                | (6,069)                                 |
| Foreign exchange gain (loss)                               |       | 5,722                                   | 1,069                                   |
|  |       | <b>(5,960)</b>                          | <b>(5,000)</b>                          |
| <b>NET LOSS</b>  |       | <b>(84,835)</b>                         | <b>(97,074)</b>                         |
| <b>OTHER COMPREHENSIVE INCOME</b>                          |       |   |   |
| Exchange difference on translating foreign operations      |       | (65,855)                                | 96,806                                  |
| <b>COMPREHENSIVE LOSS</b>                                  |       | <b>(150,690)</b>                        | <b>(268)</b>                            |
| <b>LOSS PER SHARE – BASIC AND DILUTED</b>                  | 9     | <b>\$ (0.01)</b>                        | <b>\$ (0.01)</b>                        |

See accompanying notes to the condensed consolidated financial statements

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

|                                   | Note | Share Capital     | Warrant Reserve   | Share Based Payment Reserve | Foreign Currency Translation Reserve | Accumulated Deficit | TOTAL EQUITY        |                  |
|-----------------------------------|------|-------------------|-------------------|-----------------------------|--------------------------------------|---------------------|---------------------|------------------|
|                                   |      | Number of Shares  | \$                | \$                          | \$                                   | \$                  | \$                  |                  |
| <b>Balance, December 31, 2014</b> |      | <b>71,031,679</b> | <b>13,906,274</b> | <b>526,497</b>              | <b>6,344,682</b>                     | <b>943,738</b>      | <b>(20,595,418)</b> | <b>1,125,773</b> |
| Transfer of expired warrants      | 7    | —                 | —                 | (526,497)                   | 526,497                              | —                   | —                   | —                |
| Net loss and comprehensive loss   |      | —                 | —                 | —                           | —                                    | 96,806              | (97,074)            | <b>(268)</b>     |
| <b>Balance, March 31, 2015</b>    |      | <b>71,031,679</b> | <b>13,906,274</b> | <b>—</b>                    | <b>6,871,179</b>                     | <b>1,040,544</b>    | <b>(20,692,492)</b> | <b>1,125,505</b> |
| Net loss and comprehensive loss   |      | —                 | —                 | —                           | —                                    | 64,766              | (204,690)           | <b>(139,924)</b> |
| <b>Balance, December 31, 2015</b> |      | <b>71,031,679</b> | <b>13,906,274</b> | <b>—</b>                    | <b>6,871,179</b>                     | <b>1,105,310</b>    | <b>(20,897,182)</b> | <b>985,581</b>   |
| Net loss and comprehensive loss   |      | —                 | —                 | —                           | —                                    | (65,855)            | (84,835)            | <b>(150,690)</b> |
| <b>Balance, March 31, 2016</b>    |      | <b>71,031,679</b> | <b>13,906,274</b> | <b>—</b>                    | <b>6,871,179</b>                     | <b>1,039,455</b>    | <b>(20,982,017)</b> | <b>834,891</b>   |

See accompanying notes to the condensed consolidated financial statements

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

|   | Three months<br>ended<br>March 31, 2016 | Three months<br>ended<br>March 31, 2015 |
|---|---|---|
|   | \$                                      | \$                                      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |   |   |
| Net loss for the year   | (84,835)                                | (97,074)                                |
| Adjustments to loss for non-cash items:                         |   |   |
| Depreciation  | 3,567                                   | 5,347                                   |
| Net changes in non-cash working capital items:                  |   |   |
| Trade and other receivables                                     | 8,744                                   | (1,498)                                 |
| Prepaid expenses and deposits                                   | (2,825)                                 | (3,713)                                 |
| Trade and other payables  | 124,458                                 | 38,365                                  |
| Net cash flows used in operating activities                     | 49,109                                  | (58,573)                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |   |   |
| Expenditures on exploration and evaluation assets               | (95,467)                                | (42,231)                                |
| Net cash flows used in investing activities                     | (95,467)                                | (42,231)                                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |   |   |
| Loans received  | 46,681                                  | 85,395                                  |
| Net cash flows from financing activities                        | 46,681                                  | 85,395                                  |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b> | 323                                     | (15,409)                                |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING</b>                     | 8,878                                   | 25,080                                  |
| <b>CASH AND CASH EQUIVALENTS, ENDING</b>                        | 9,201                                   | 9,671                                   |

See accompanying notes to the condensed consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**MARCH 31, 2016 AND 2015**  
(Expressed in Canadian dollars - unaudited)

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**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 and South Africa.

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 1128, 789 West Pender Street, Vancouver, BC V6C 1H2.

**Going Concern**

These condensed consolidated interim financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at March 31, 2016 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 quarter-end, the Company received cash from further loans payable of \$48,948 in loans (Note 16).

**2. STATEMENT OF COMPLIANCE**

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

These condensed consolidated interim financial statements comply with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all of the information required of a complete set of consolidated financial statements and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and the performance of the Company since the end of its last annual reporting period. It is therefore recommended that these condensed consolidated interim financial statements be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2015, which were prepared in accordance with IFRS as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue on May 25, 2016 by the Audit Committee of the Company.

**3. BASIS OF PRESENTATION**

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual consolidated financial statements of the Company for the year ended December 31, 2015. The condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise indicated.

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**MARCH 31, 2016 AND 2015**  
(Expressed in Canadian dollars - unaudited)

**4. EXPLORATION AND EVALUATION ASSETS**

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

|                       | March 31,<br>2016 | December 31,<br>2015 |
|-----------------------|-------------------|----------------------|
|                       | \$                | \$                   |
| South Africa - Phosco | 1,358,891         | 1,314,909            |
| Tanzania - Wigu Hill  | 1,187,931         | 1,215,687            |
|                       | <b>2,546,822</b>  | <b>2,530,596</b>     |

**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 August 19, 2014, the Company entered into a letter agreement, which was subject to legal and technical due diligence, with Ovation to develop the Phosco Project. A definitive Exploration and Co-development Agreement ("Agreement") was signed on March 2, 2015 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. Based on the work undertaken so far by BVI, they have indicated that they are prepared to forgo the initial one year milestone and proceed directly to conducting work on the Bankable Feasibility Study to be completed by March 2, 2017, which would then entitle them to earn 30% of the Phosco. Ovation is to provide Montero with the additional costings, over and above the CAD\$ 2.7 million committed to date. To date Ovation has not earned any interest in the Phosco Project and no value has been placed on the funding provided by Ovation.

The Company has a total of \$9,393 (December 31, 2015 - \$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.

**Greenflash Project**

On August 20, 2015, the Company entered into a binding letter agreement with Greenflash 251 (Pty) Limited ("Greenflash") to acquire up to a 75% interest in the Greenflash Off-Shore Phosphate Project ("Greenflash Project") in South Africa. Montero has six months to complete the financial, legal and technical due diligence and to obtain TSX-V approval. Once this is completed, Montero would earn 49% interest in the Greenflash Project, by committing to complete a NI43-101 compliant resource (approximate cost \$2 million) and could earn up to 75% interest by completing a Bankable Feasibility Study.

On August 25, 2015, the Company has also entered into a Memorandum of Understanding with Ovation to co-fund the due diligence of the Greenflash Project. Upon successful completion of the due diligence, Ovation shall have the right to earn 49% of Montero's interest in the Greenflash Project by providing funding to complete the NI43-101 compliant resource.

Montero is now in the process of seeking an extension to the Greenflash agreement and is working on amendments of the Memorandum of Understanding with Ovation.

**MONTERO MINING AND EXPLORATION LTD.**  
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**MARCH 31, 2016 AND 2015**  
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**4. EXPLORATION AND EVALUATION ASSETS – Continued**

**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 United States dollars (“USD”) \$150,000 on or before April 30, 2010 (paid). After the exercise of the First Option, RSR will transfer the prospecting licences comprising the Wigu Hill Project (the “Wigu Hill Licences”) to a newly-formed company (established and called - Wigu Hill Mining Company Limited “WHMC”) and the Company will concurrently pay RSR a further USD \$50,000 (paid). The Company is further obligated to incur exploration expenditures of USD \$3.5 million (incurred) (or alternatively complete a prefeasibility study) on or before November 28, 2012. Once completed, the Company may at its sole discretion, within 60 days after November 28, 2012, elect to acquire a further 10% interest in the Wigu Hill Licences by paying RSR a further USD \$2,000,000 to complete the requirements to execute the Second Option (amended as outlined below).

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 March 31, 2016 were determined to be \$1,573,629 (USD \$1,213,190) 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.



**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**MARCH 31, 2016 AND 2015**  
(Expressed in Canadian dollars - unaudited)

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

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

|   | South<br>Africa  | Tanzania         | Three Months<br>ended<br>March 31, 2016 | Year ended<br>December 31,<br>2015 |
|---|------------------|------------------|---|------------------------------------|
|   | Phosco           | Wigu Hill        |   |                                    |
|   | \$               | \$               | \$                                      | \$                                 |
| <b>Property acquisition costs</b>       |                  |                  |   |                                    |
| Balance, beginning of period            | 784,351          | 371,318          | 1,155,669                               | 1,055,276                          |
| Foreign currency translation            | -                | (25,667)         | (25,667)                                | 57,374                             |
| Additions                               | -                | 41,629           | 41,629                                  | 43,019                             |
| Impairment                              | -                | -                | -                                       | -                                  |
| <b>Balance, end of period</b>           | <b>784,351</b>   | <b>387,280</b>   | <b>1,171,631</b>                        | <b>1,155,669</b>                   |
| <b>Exploration and evaluation costs</b> |                  |                  |   |                                    |
| Balance, beginning of period            | 530,558          | 844,369          | 1,374,927                               | 1,296,861                          |
| Foreign currency translation            | -                | (53,574)         | (53,574)                                | 146,489                            |
| Costs incurred during the period:       |                  |                  |   |                                    |
| Field and camp costs                    | -                | 5,531            | 5,531                                   | 23,241                             |
| Geochemical and metallurgical           | 856              | -                | 856                                     | 4,051                              |
| Geological consulting                   | 40,763           | -                | 40,763                                  | (86,116)                           |
| Geophysical and maps                    | -                | -                | -                                       | -                                  |
| Maintenance and environmental           | 1,502            | -                | 1,502                                   | (35,226)                           |
| Motor vehicle costs                     | -                | -                | -                                       | -                                  |
| Project administration costs            | 59               | 4,306            | 4,365                                   | 24,279                             |
| Travel and accommodation                | 802              | 19               | 821                                     | 1,348                              |
|   | 574,540          | 800,651          | 1,375,191                               | 1,374,927                          |
| Impairment                              | -                | -                | -                                       | -                                  |
|   | -                | -                | -                                       | -                                  |
| <b>Balance, end of period</b>           | <b>574,540</b>   | <b>800,651</b>   | <b>1,375,191</b>                        | <b>1,374,927</b>                   |
| <b>Total</b>                            | <b>1,358,891</b> | <b>1,187,931</b> | <b>2,546,822</b>                        | <b>2,530,596</b>                   |

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**MARCH 31, 2016 AND 2015**  
(Expressed in Canadian dollars - unaudited)

**5. LOANS PAYABLE**

These amounts are due from companies that have a director in common with the Company and to a third party associate. The total amount of loans and accrued interest owing to companies that have a director in common with the Company are \$448,136 and to the third party associate is \$32,019. The loans are unsecured, bear interest at 12% and have now been extended to a due date of July 31, 2016. The loans payable amounts also include \$65,330 of accrued interest (December 31, 2015 - \$53,648). During the three months ended March 31, 2016 interest of \$11,682 has been charged to finance costs (three months ended March 31, 2015 - \$6,069).

Subsequent to the quarter-end, a further \$48,948 was advanced to the Company subject to the same terms noted above (Note 16).

**6. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value.

**Issued and outstanding**

At March 31, 2016 there were 71,031,679 issued and fully paid common shares outstanding (December 31, 2015 – 71,031,679).

**Details of changes to share capital**

None during the period.

**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:

|  | <b>March 31, 2016</b>        |  | <b>December 31, 2015</b>     |                                       |
|--|------------------------------|--|------------------------------|---------------------------------------|
|  | Number of<br>Shares Issuable | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Shares Issuable | Weighted<br>Average<br>Exercise Price |
|  |                              | \$                                       |                              | \$                                    |
| Options outstanding, beginning of period           | 3,270,000                    | 0.32                                     | 4,620,000                    | 0.27                                  |
| Granted  | -                            | -  | -                            | -                                     |
| Expired  | (1,240,000)                  | 0.50                                     | (1,350,000)                  | 0.21                                  |
| Options outstanding and exercisable, end of period | 2,030,000                    | 0.20                                     | 3,270,000                    | 0.32                                  |

The stock options expire as follows: 625,000 options with an average exercise price of \$0.38 in December, 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 1.66 years.

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**7. WARRANTS**

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

|   | March 31, 2016            |                                 | December 31, 2015         |                                 |
|---|---------------------------|---------------------------------|---------------------------|---------------------------------|
|   | Number of Shares Issuable | Weighted Average Exercise Price | Number of Shares Issuable | Weighted Average Exercise Price |
|   |                           | \$                              |                           | \$                              |
| Warrants outstanding, beginning of period | -                         | -                               | 11,731,020                | 0.24                            |
| Expired                                   |                           | -                               | (11,731,020)              | 0.24                            |
| Warrants outstanding, end of period       | -                         | -                               | -                         | -                               |

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.

**8. SHARE-BASED PAYMENT RESERVE**

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

|                                |                  |
|--------------------------------|------------------|
|                                | \$               |
| Expired warrants               | 5,086,472        |
| Expired stock options          | 1,507,211        |
| Unexpired stock options        | 277,496          |
| <b>Balance, March 31, 2016</b> | <b>6,871,179</b> |

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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**9. LOSS PER SHARE**

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

|  | <b>March 31,<br/>2016</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|---------------------------|
| Net loss attributable to owners of the parent company  | \$ (84,835)               | \$ (97,074)               |
| Weighted average number of ordinary shares outstanding | 71,031,679                | 71,031,679                |
| Basic and diluted loss per ordinary share              | \$ (0.01)                 | \$ (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 condensed consolidated interim financial statements.

**10. COMMITMENTS AND CONTINGENCIES**

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in Note 4.

**11. RELATED PARTY TRANSACTIONS**

**Key management personnel compensation**

|   | <b>Three months ended March 31</b> |               |
|---|------------------------------------|---------------|
|   | <b>2016</b>                        | <b>2015</b>   |
|   | <b>\$</b>                          | <b>\$</b>     |
| <i>Compensation of key management personnel</i> |                                    |               |
| Short-term benefits                             | 19,852                             | 19,966        |
| Share-based payments                            | -                                  | -             |
|   | <b>19,852</b>                      | <b>19,966</b> |

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**11. 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.

|  | <b>Three months ended March 31</b> |               |
|--|------------------------------------|---------------|
|  | <b>2016</b>                        | <b>2015</b>   |
|  | <b>\$</b>                          | <b>\$</b>     |
| <i>Exploration and evaluation asset transactions</i>       |                                    |               |
| Geological consulting                                      | 40,763                             | -             |
| Other  | -                                  | -             |
| <b>Total exploration and evaluation asset transactions</b> | <b>40,763</b>                      | <b>-</b>      |
| <i>Operating expense (income) transactions</i>             |                                    |               |
| Consulting, directors', administrative and management fees | 10,200                             | 17,736        |
| General and administrative                                 | 3,000                              | 3,000         |
| Finance costs  | 10,926                             | 5,329         |
|  | 24,126                             | 26,065        |
| <b>Total trading transactions with related parties</b>     | <b>64,889</b>                      | <b>26,065</b> |

**Related party balances**

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

|                               | <b>March 31,</b> | <b>December 31,</b> |
|-------------------------------|------------------|---------------------|
|                               | <b>2016</b>      | <b>2015</b>         |
|                               | <b>\$</b>        | <b>\$</b>           |
| <b>Due to related parties</b> | <b>876,716</b>   | <b>797,516</b>      |
| <b>Loans payable (Note 5)</b> | <b>448,136</b>   | <b>402,211</b>      |

The amounts due to related parties represent amounts due to directors and officers or companies which have directors in common, or in which the directors have significant influence and interests. These amounts are included in trade and other payables and are unsecured, non-interest bearing and are due within twelve months. The terms of the loans payable are outlined in Note 5.

**12. SEGMENTED INFORMATION**

The Company has one business segment being the exploration and evaluation of mineral resources. The Company is organized by geographic area and as such, its reportable operating segments are located in Canada, Tanzania and South Africa.

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**12. SEGMENTED INFORMATION – Continued**

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

| <b>As at March 31, 2016</b>       |               |                     |                  |                  |
|-----------------------------------|---------------|---------------------|------------------|------------------|
|                                   | <b>Canada</b> | <b>South Africa</b> | <b>Tanzania</b>  | <b>Total</b>     |
|                                   | <b>\$</b>     | <b>\$</b>           | <b>\$</b>        | <b>\$</b>        |
| Reclamation bonds                 | -             | 9,393               | -                | 9,393            |
| Plant and equipment               | -             | -                   | 24,735           | 24,735           |
| Exploration and evaluation assets | -             | 1,358,891           | 1,187,931        | 2,546,822        |
| <b>Total non-current assets</b>   | <b>-</b>      | <b>1,368,284</b>    | <b>1,212,666</b> | <b>2,580,950</b> |

  

| <b>As at December 31, 2015</b>    |               |                     |                  |                  |
|-----------------------------------|---------------|---------------------|------------------|------------------|
|                                   | <b>Canada</b> | <b>South Africa</b> | <b>Tanzania</b>  | <b>Total</b>     |
|                                   | <b>\$</b>     | <b>\$</b>           | <b>\$</b>        | <b>\$</b>        |
| Reclamation bonds                 | -             | 9,393               | -                | 9,393            |
| Plant and equipment               | -             | -                   | 29,655           | 29,655           |
| Exploration and evaluation assets | -             | 1,314,909           | 1,215,687        | 2,530,596        |
| <b>Total non-current assets</b>   | <b>-</b>      | <b>1,324,302</b>    | <b>1,245,342</b> | <b>2,569,644</b> |

**13. NON-CASH TRANSACTIONS**

There were no non-cash transactions during the three months ended March 31, 2016 or three months ended March 31, 2015 that are not reflected in the statement of cash flows:

**14. CAPITAL MANAGEMENT**

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

The Company's principle assets are in the exploration and evaluation stage and, as a result, the Company currently has no source of operating cash flow. In order to facilitate the management of capital and exploration of its mineral properties, the Company needs to raise capital as and when required to complete its projects and for working capital. The sources of future funds presently available to the Company are through the issuance of new share capital, through the exercise of stock options and/or warrants or through 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.

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**14. CAPITAL MANAGEMENT – *Continued***

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.

**15. RISK MANAGEMENT**

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

*Industry Risk*

The Company is engaged in the mineral exploration field, which is subject to inherent risks of success as well as compliance with environmental, political and regulatory requirements. The Company is potentially at risk for environmental reclamation obligations associated with resource property interests. As well, the Company operates in foreign countries and is subject to local political risks, as well as local regulatory requirements regarding ownership and maintenance of mineral licences. Management is of the opinion that they have the expertise to address these 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 trade and other payables are generally due within 90 days, with all amounts due within twelve months. The Company's loans payable are due on July 31, 2016.

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**15. 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, the Tanzanian subsidiaries' functional currency is the United States dollar and the South African subsidiaries' functional currency is the Canadian dollar. At March 31, 2016 and 2015, 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 and phosphates) to determine the appropriate course of action to be taken by the Company.

**16. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to March 31, 2016 the following events took place:

- a) In April and May, 2015 the Company received additional amounts totalling \$48,948 in regards to loans payable which are subject to the terms as described in Note 5.