
TEMBO GOLD CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

(Expressed in Canadian Dollars)

Independent auditor's report

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To the shareholders of
Tembo Gold Corp.

We have audited the accompanying consolidated financial statements of Tembo Gold Corp. which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tembo Gold Corp. 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 qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that Tembo Gold Corp. has not yet achieved profitable production and has a working capital deficit of \$1,662,526 and has accumulated losses of \$53,567,266 at December 31, 2017. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast substantial doubt about the Corporation's ability to continue as a going concern.



Toronto, Canada
July 30, 2018

Chartered Professional Accountants
Licensed Public Accountants

TEMBO GOLD CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	December 31, 2017 \$	December 31, 2016 \$
ASSETS			
Current assets			
Cash		5,174	10,667
GST receivable		2,994	341
Prepaid expenses and deposits		<u>300</u>	<u>8,146</u>
Total current assets		<u>8,468</u>	<u>19,154</u>
Non-current assets			
Property, plant and equipment	4	260,505	280,814
Exploration and evaluation assets	5	<u>5,293,221</u>	<u>5,442,739</u>
Total non-current assets		<u>5,553,726</u>	<u>5,723,553</u>
TOTAL ASSETS		<u>5,562,194</u>	<u>5,742,707</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	1,590,994	1,093,980
Advances payable	6	<u>80,000</u>	<u>97,357</u>
TOTAL LIABILITIES		<u>1,670,994</u>	<u>1,191,337</u>
SHAREHOLDERS' EQUITY			
Share capital	7	37,667,781	37,452,906
Share-based payments reserve		13,993,948	13,993,948
Foreign currency translation reserve		5,796,737	6,128,347
Deficit		<u>(53,567,266)</u>	<u>(53,023,831)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>3,891,200</u>	<u>4,551,370</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>5,562,194</u>	<u>5,742,707</u>

Nature of Operations and Going Concern - See Note 1

These consolidated financial statements were approved for issue by the Board of Directors on July 30, 2018 and are signed on its behalf by:

/s/ David Scott
David Scott
Director

/s/ Simon Benstead
Simon Benstead
Director

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

TEMBO GOLD CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Note	Year Ended December 31	
		2017 \$	2016 \$
Expenses			
Accounting and administration		17,600	34,651
Audit		31,955	40,806
Depreciation	4	27,210	24,561
Executive management compensation	8	182,943	184,975
Interest expense on advances	6	3,200	3,646
Investment conference		7,805	-
Legal		-	9,477
Office		6,402	10,207
Professional fees		19,069	29,246
Regulatory		8,693	16,318
Rent	8	51,401	67,738
Salaries and benefits	8	202,581	188,330
Shareholder costs		-	285
Transfer agent		4,110	4,372
Travel		3,489	-
		<u>566,458</u>	<u>614,612</u>
Loss before other items		<u>(566,458)</u>	<u>(614,612)</u>
Other items			
Foreign exchange		23,023	3,436
Impairment of exploration and evaluation assets	5	-	(20,000,000)
		<u>23,023</u>	<u>(19,996,564)</u>
Net loss for the year		<u>(543,435)</u>	<u>(20,611,176)</u>
Other comprehensive loss			
Change in currency translation of foreign subsidiary		<u>(331,610)</u>	<u>(770,232)</u>
Comprehensive loss for the year		<u>(875,045)</u>	<u>(21,381,408)</u>
Basic and diluted loss per common share		<u>\$(0.00)</u>	<u>\$(0.14)</u>
Weighted average number of common shares outstanding		<u>161,911,383</u>	<u>147,180,990</u>

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

TEMBO GOLD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

Year Ended December 31, 2017						
Share Capital						
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Equity \$
Balance at December 31, 2016	155,232,634	37,452,906	13,993,948	6,128,347	(53,023,831)	4,551,370
Common shares issued for:						
cash - private placement	7,500,000	225,000	-	-	-	225,000
Share issue costs	-	(10,125)	-	-	-	(10,125)
Currency translation adjustment	-	-	-	(331,610)	-	(331,610)
Net loss for the year	-	-	-	-	(543,435)	(543,435)
Balance at December 31, 2017	162,732,634	37,667,781	13,993,948	5,796,737	(53,567,266)	3,891,200
Year Ended December 31, 2016						
Share Capital						
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Equity \$
Balance at December 31, 2015	136,757,634	37,086,656	13,993,948	6,898,579	(32,412,655)	25,566,528
Common shares issued for:						
cash - private placement	18,475,000	369,500	-	-	-	369,500
Share issue costs	-	(3,250)	-	-	-	(3,250)
Currency translation adjustment	-	-	-	(770,232)	-	(770,232)
Net loss for the year	-	-	-	-	(20,611,176)	(20,611,176)
Balance at December 31, 2016	155,232,634	37,452,906	13,993,948	6,128,347	(53,023,831)	4,551,370

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

TEMBO GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year Ended December 31	
	2017	2016
	\$	\$
Operating activities		
Net loss for the year	(543,435)	(20,611,176)
Adjustments for:		
Depreciation	27,210	24,561
Unrealized foreign exchange	(79)	(203)
Impairment of exploration and evaluation assets	-	20,000,000
Changes in non-cash working capital items:		
GST receivable	(2,653)	(341)
Prepaid expenses and deposits	7,665	10,435
Accounts payable and accrued liabilities	372,916	221,688
Net cash used in operating activities	<u>(138,376)</u>	<u>(355,036)</u>
Investing activities		
Expenditures on exploration and evaluation assets	(37,835)	(37,902)
Expenditures on property, plant and equipment	(25,536)	-
Net cash used in investing activities	<u>(63,371)</u>	<u>(37,902)</u>
Financing activities		
Issuance of common shares	215,000	320,207
Share issue costs	(10,125)	(3,250)
Advances received	16,000	106,179
Repayment of advances	(23,278)	(23,326)
Net cash provided by financing activities	<u>197,597</u>	<u>399,810</u>
Effect of exchange rate changes on cash	<u>(1,343)</u>	<u>2,971</u>
Net change in cash	(5,493)	9,843
Cash at beginning of year	<u>10,667</u>	<u>824</u>
Cash at end of year	<u>5,174</u>	<u>10,667</u>

Supplemental cash flow information - See Note 11

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

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Tembo Gold Corp. (the “Company”) is a public company incorporated on March 3, 1937 pursuant to the laws of the Province of Ontario, Canada. The Company is a publicly listed company with its common shares listed on the TSX Venture Exchange (“TSXV”) under the symbol “TEM”.

The Company is a junior mineral exploration company currently engaged in the acquisition and exploration of mineral properties located in Tanzania. On the basis of information to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Exploration and evaluation assets represent costs incurred to date, less amounts depreciated and/or written off, and do not necessarily represent present or future values.

The Company’s material mineral properties are located in Tanzania and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

These consolidated financial statements have been prepared on a going concern basis. As at December 31 2017 the Company has a working capital deficit of \$1,662,526 and an accumulated deficit of \$53,567,266. The Company has not yet produced any revenues from its mineral interests and further funds will be required to fund existing levels of overhead and planned exploration expenditures over the course of the next twelve months. The Company will need to raise additional capital from the sale of common shares or other equity or debt instruments. If the Company is unable to raise the necessary capital and generate sufficient cash flows to meet obligations as they come due, the Company may have to reduce or curtail its operations or obtain financing at unfavourable terms. The material uncertainty may cast significant doubt about the Company’s ability to continue as a going concern. Furthermore, failure to continue as a going concern would require the Company’s assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Basis of Measurement

The Company’s consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise stated.

Basis of Consolidation

In addition to the Company, these consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) The determination of a subsidiary's functional currency often requires significant judgment when the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.
- (iv) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 9.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Depreciation expense is allocated based on assumed useful life of property, plant and equipment. Should the useful life differ from the initial estimate, an adjustment would be made in the statement of operations.
- (ii) The calculation of share-based compensation requires estimates of volatility, interest rates, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share-based compensation reserve.

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

- (iii) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (iv) The assessment of any impairment of property, plant and equipment and exploration and evaluation assets is dependent upon estimates of the recoverable amounts that take into account factors such as reserves, economic and market conditions and the useful lives of assets. In fiscal 2016, as a result of this assessment, management has carried out an impairment test on the Company's exploration and evaluation assets and an impairment charge of \$20,000,000 was made. In fiscal 2017 management concluded there were no impairment indicators and no impairment charge was required.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk. As at December 31, 2017 and 2016 the Company did not have any cash equivalents.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Assets

Pre-exploration costs incurred prior to acquiring the legal rights to explore are expensed in the period in which they are incurred. Subsequent to obtaining the legal right to explore, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant Accounting Policies (continued)

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. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they are charged to the results of operations.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful lives of the assets. The rates generally applicable are:

Computer software	25%
Office equipment and furniture	12.5 % to 25%
Exploration equipment and camp facility	5% to 25%
Vehicles	25%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

TEMBO GOLD CORP.
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(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2017 and 2016 the Company does not have any decommissioning obligations.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through the statement of loss and comprehensive loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Cash and cash equivalents are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and advances are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At December 31, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

TEMBO GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant Accounting Policies (continued)

Loss Per Share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent Company. The functional currency of Tembo Gold (T) Limited is US dollars.

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Company's financial statements, all assets, liabilities and transactions of the Company's entities with a functional currency other than the Canadian dollars are translated into Canadian dollars upon consolidation. The functional currency of the entities in the Company have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into Canadian dollars at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian dollars at the closing rate.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. 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 comprehensive loss.

New and Amended Accounting Standards Effective January 1, 2017

The following new and amended standards were adopted by the Company during fiscal 2017:

- (i) IAS 7, *Statements of Cash Flows - Disclosure Initiative*, amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. There was no impact of this change on the Company's financial statements.

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3. Significant Accounting Policies (continued)

- (ii) IAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*, amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. As the Company has no debt instruments measured at fair value, this change had no impact on the financial statements.

New Accounting Standards, Interpretations and Amendments Not Yet Effective

As at the date of these consolidated financial statements, the following standards have not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. Management is currently assessing the impact of these new standards on the Company's accounting policies and consolidated financial statement presentation.

4. Property, Plant and Equipment

Cost:	Office Furniture and Equipment \$	Exploration Equipment and Camp Facility \$	Computer Software \$	Vehicles \$	Total \$
Balance at December 31, 2015	129,863	499,891	74,587	4,844	709,185
Foreign exchange movement	<u>(3,875)</u>	<u>(14,917)</u>	<u>(2,226)</u>	<u>(145)</u>	<u>(21,163)</u>
Balance at December 31, 2016	125,988	484,974	72,361	4,699	688,022
Additions	-	-	-	25,536	25,536
Foreign exchange movement	<u>(8,276)</u>	<u>(31,857)</u>	<u>(4,753)</u>	<u>(1,409)</u>	<u>(46,295)</u>
Balance at December 31, 2017	<u>117,712</u>	<u>453,117</u>	<u>67,608</u>	<u>28,826</u>	<u>667,263</u>

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4. Property, Plant and Equipment (continued)

	Office Furniture and Equipment \$	Exploration Equipment and Camp Facility \$	Computer Software \$	Vehicles \$	Total \$
Accumulated Depreciation:					
Balance at December 31, 2015	(115,015)	(199,645)	(74,587)	(4,844)	(394,091)
Depreciation	(4,440)	(20,121)	-	-	(24,561)
Foreign exchange movement	<u>3,375</u>	<u>5,698</u>	<u>2,226</u>	<u>145</u>	<u>11,444</u>
Balance at December 31, 2015	(116,080)	(214,068)	(72,361)	(4,699)	(407,208)
Depreciation	(4,348)	(19,701)	-	(3,161)	(27,210)
Foreign exchange movement	<u>7,771</u>	<u>14,721</u>	<u>4,753</u>	<u>415</u>	<u>27,660</u>
Balance at December 31, 2017	<u>(112,657)</u>	<u>(219,048)</u>	<u>(67,608)</u>	<u>(7,445)</u>	<u>(406,758)</u>
Carrying Value:					
Balance at December 31, 2016	<u>9,908</u>	<u>270,906</u>	<u>-</u>	<u>-</u>	<u>280,814</u>
Balance at December 31, 2017	<u>5,055</u>	<u>234,069</u>	<u>-</u>	<u>21,381</u>	<u>260,505</u>

5. Exploration and Evaluation Assets

	Total \$
Balance at December 31, 2015	<u>25,970,778</u>
Exploration costs	
Field transportation	65,416
Technical services	<u>165,654</u>
	<u>231,070</u>
Acquisition costs	
Property / concession payments	12,742
Foreign exchange movement	(771,851)
Impairment	<u>(20,000,000)</u>
Balance at December 31, 2016	<u>5,442,739</u>
Exploration costs	
Technical services	188,544
Acquisition costs	
Property / concession payments	26,677
Foreign exchange movement	<u>(364,739)</u>
Balance at December 31, 2017	<u>5,293,221</u>

Tembo Project

The Tembo Project is located in northwest Tanzania, and is comprised of 38 contiguous prospecting licenses and license applications covering approximately 110 square kilometres.

The Company will be required to make a US \$250,000 payment to a third party upon a production decision being made on the Tembo Project. Further payments totalling US \$4,750,000 may then be payable as follows:

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5. Exploration and Evaluation Assets (continued)

- (i) US \$250,000 payment upon production of 250,000 ounces of gold;
- (ii) US \$1,000,000 payment upon production of 1,000,000 ounces of gold;
- (iii) US \$1,500,000 payment upon production of 1,500,000 ounces of gold; and
- (iv) a final payment of US \$2,000,000 upon production of 2,000,000 ounces of gold.

In fiscal 2016 management assessed whether there were any indicators of impairment of the Company's exploration and evaluation assets as required by IFRS 6. In light of the Company's lack of funding and resultant inability to conduct significant exploration activities on the Tembo Project in recent years and the low trading value of the Company's common shares, management concluded there were indications of impairment.

When indicators of impairment are determined to be present, IAS 36 requires the Company to estimate the recoverable amount of the Company's exploration and evaluation assets. The Company does not have sufficient verifiable information to prepare adequately detailed and meaningful calculations of fair value. Therefore, the Company applied a fair value-based method that took into account the Company's financial position, results of operations and market capitalization of the Company's common shares, among other factors, in determining an estimated recoverable amount. This method indicated that an impairment provision of \$20,000,000 was appropriate in fiscal 2016. No further impairment provision was considered to be necessary for fiscal 2017.

6. Advances Payable

	December 31, 2017 \$	December 31, 2016 \$
Advances (a)	64,000	64,000
Advances (b)	<u>16,000</u>	<u>33,357</u>
	<u>80,000</u>	<u>97,357</u>

- (a) The advances bear interest at a rate of 5% per annum and have no fixed terms of repayment. During fiscal 2017 the Company recorded \$3,200 (2016 - \$3,646) of interest expense. As at December 31, 2017 accrued interest of \$7,512 (2016 - \$4,312) was unpaid and included in accounts payable and accrued liabilities.
- (b) The Company has received ongoing advances from shareholders and the CFO of the Company. The advances are non-interest bearing and are due on demand. During fiscal 2017 the Company retired advances totalling \$23,357 (2016 - \$23,326) and subsequently received a further \$6,000 (2016 - \$36,886). As at December 31, 2017 the remaining advance is due to the CFO.

7. Share Capital

(a) ***Authorized Share Capital***

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares. All issued common shares are fully paid.

(b) ***Reconciliation of Changes in Share Capital***

Fiscal, 2017

On March 2, 2017 the Company completed a non-brokered private-placement financing of 7,500,000 common shares at a price of \$0.03 per share to raise gross proceeds of \$225,000. The Company recorded a finder's fee of \$7,000 and incurred \$3,125 of share issue costs relating to this private placement.

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7. Share Capital (continued)

Fiscal 2016

During fiscal 2016 the Company completed a non-brokered private-placement financing of 18,475,000 common shares at a price of \$0.02 per share to raise gross proceeds of to \$369,500.

The Company incurred \$3,250 of share issue costs relating to this private placement.

(c) **Warrants**

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning and end of year	87,171,921	0.12	87,171,921	0.12

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at December 31, 2017:

Number	Exercise Price \$	Expiry Date
73,371,421	0.12	December 2, 2018
12,800,500	0.12	January 9, 2019
1,000,000	0.125	March 11, 2019
87,171,921		

(d) **Share Option Plan**

The Company has established a rolling share option plan (the "Plan") in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

During fiscal 2017 and 2016 no share options were granted.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

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7. Share Capital (continued)

A summary of the Company's share options at December 31, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	400,000	0.10	600,000	0.23
Expired	-	-	(200,000)	0.50
Balance, end of year	400,000	0.10	400,000	0.10

The following table summarizes information about the share options outstanding and exercisable at December 31, 2017:

Number	Exercise Price \$	Expiry Date
400,000	0.10	November 20, 2018

8. Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period. Transactions made with related parties are made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with Key Management Personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

During fiscal 2017 and 2016 the following amounts were incurred:

	2017 \$	2016 \$
Executive management compensation	182,943	184,975

In addition executive management compensation of \$134,596 (2016 - \$137,458) has been capitalized to exploration and evaluation assets based on the nature of the expenditures.

As at December 31, 2017, \$752,390 (2016 - \$529,757) remained unpaid and has been included in accounts payable and accrued liabilities.

The Company has also incurred rent in Tanzania for housing accommodation provided to the President of the Company. The value of the accommodation for fiscal 2017 was \$51,401 (2016 - \$52,494). As at December 31, 2017, \$55,160 (2016 - \$19,496) remained unpaid and has been included in accounts payable and accrued liabilities.

During fiscal 2017 the Company incurred \$17,600 (2016 - \$34,651) for accounting and administration services provided by a private corporation owned by the Corporate Secretary of the Company. As at December 31, 2017 \$7,348 (2016 - \$8,111) remained unpaid and has been included in accounts payable and accrued liabilities.

See also Note 6(b).

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9. Income Taxes

Income tax recovery attributable to loss before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 26.5% (2016 - 26.5%) to pre-tax loss as a result of the following:

	2017 \$	2016 \$
Expected income tax recovery	(154,837)	(6,172,980)
Origination and reversal of temporary differences	(66,943)	(93,298)
Deferred tax assets not recognized	<u>221,780</u>	<u>6,266,278</u>
	<u>-</u>	<u>-</u>

Deferred income tax assets and liabilities of the Company as at December 31, 2017 and 2016 are as follows:

	2017 \$	2016 \$
Non-capital losses	10,592,980	4,371,200
Common share issue costs	3,927	67,842
Other assets	-	-
Resource pools carried forward	<u>425,685</u>	<u>6,425,685</u>
Total deferred income tax assets	11,022,592	10,864,727
Deferred tax assets not recognized	<u>(11,022,592)</u>	<u>(10,864,727)</u>
	<u>-</u>	<u>-</u>

As at December 31, 2017, the Company has non-capital losses of approximately \$13,327,500 (2016 - \$12,839,500), unclaimed common share issue costs of \$15,000 (2016 - \$256,009) and accumulated pools of approximately \$1,606,358 (2016 - \$1,606,358) for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2026 through 2037. The Company's subsidiaries in Tanzania have losses for income tax purposes of approximately \$3,538,000 (2016 - \$3,228,000) which may be carried forward indefinitely.

10. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2017 \$	December 31, 2016 \$
Cash	FVTPL	5,174	10,667
Accounts payable and accrued liabilities	Other financial liabilities	(5,190,994)	(1,093,980)
Advances payable	Other financial liabilities	(80,000)	(97,357)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

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10. Financial Instruments and Risk Management (continued)

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities and time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for accounts payable and accrued liabilities and advances payable approximate their fair value due to their short-term nature. The recorded amounts for cash approximate their fair value.

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

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. Management believes that the potential loss related to the credit risk included in cash is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

	Contractual Maturity Analysis at December 31, 2017				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	5,174	-	-	-	5,174
Accounts payable and accrued liabilities	(1,590,994)	-	-	-	(1,590,994)
Advances payable	(80,000)	-	-	-	(80,000)

Market Risk

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

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

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10. Financial Instruments and Risk Management (continued)

(b) Foreign Currency Risk

The Company's significant subsidiaries are located in Tanzania and have adopted the US Dollar as their currency. The Company also maintains cash deposits in US Dollars with its Canadian bank. As such, the fluctuation of the Canadian Dollar in relation to the US Dollar will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At December 31, 2017, 1 Canadian Dollar was equal to 0.80 US Dollar.

Balances are as follows:

	US \$	CDN \$ Equivalent
Cash	596	745
Accounts payable and accrued liabilities	<u>(1,072,365)</u>	<u>(1,340,457)</u>
	<u>(1,071,769)</u>	<u>(1,339,712)</u>

Based on the net exposures as of December 31, 2017 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in the Company's net loss being approximately \$139,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

11. Supplemental Cash Flow Information

During fiscal 2017 and 2016 non-cash activities were conducted by the Company as follows:

	2017 \$	2016 \$
Operating activity		
Accounts payable and accrued liabilities	<u>387,231</u>	<u>208,566</u>
Investing activity		
Exploration and evaluation assets	<u>(387,231)</u>	<u>(208,566)</u>
Financing activities		
Advances repaid	(10,000)	(49,293)
Issuance of share capital	<u>10,000</u>	<u>49,293</u>
	<u>-</u>	<u>-</u>

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12. Segmented Information

The Company operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Company's exploration and evaluation assets are located in Tanzania and its corporate assets are located in Canada.

The Company's total assets are segmented geographically as follows:

	As at December 31, 2017		
	Canada	Tanzania	Total
	\$	\$	\$
Current assets	8,273	195	8,468
Property, plant and equipment	-	260,505	260,505
Exploration and evaluation assets	-	5,293,221	5,293,221
	<u>8,273</u>	<u>5,553,921</u>	<u>5,562,194</u>
	As at December 31, 2016		
	Canada	Tanzania	Total
	\$	\$	\$
Current assets	13,515	5,639	19,154
Property, plant and equipment	-	280,814	280,814
Exploration and evaluation assets	-	5,442,739	5,442,739
	<u>13,515</u>	<u>5,729,192</u>	<u>5,742,707</u>