SONORA GOLD & SILVER CORP.

Consolidated Financial Statements

Three Months Ended April 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor

The Company's external auditors, Saturna Group Chartered Accountants LLP, have not performed a review of these financial statements.

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

SONORA GOLD & SILVER CORP.

Interim Consolidated statements of financial position
(Expressed in Canadian dollars)
(unaudited)

	April 30, 2014 $	January 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	202,815	239,596
Amounts receivable	1,644	3,137
Total current assets	204,459	242,733
Non-current assets		
Restricted cash (Note 3)	11,500	11,500
Mineral property costs (Note 4)	989,328	989,328
Total non-current assets	1,205,287	1,243,561
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	23,319	24,868
Total liabilities	23,319	24,868
Shareholders' Equity		
Share capital (Note 6)	11,542,225	11,542,225
Contributed Surplus (Note 7)	1,075,715	1,075,715
Deficit	(11,435,973)	(11,399,247)
Total shareholders' equity	1,181,967	1,218,693
Total liabilities and shareholders' equity	1,205,287	1,243,561

Nature of operations and continuance of business (Note 1)

Approved and authorized for issuance by the Board of Directors on June 5, 2014:

/s/ "Kenneth Churchill"

Kenneth Churchill, Director

/s/ "Michael Resendes"

Michael Resendes, Director

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

SONORA GOLD & SILVER CORP.
Interim Consolidated statements of comprehensive loss
(Expressed in Canadian dollars)
(unaudited)

	Three Months ended April 30, 2014 $	Three Months ended April 30, 2013 $
Revenue	–	–
Expenses		
Consulting fees	4,500	4,500
Management fees (Note 10)	19,200	19,200
Office and miscellaneous	2,942	6,694
Professional fees	-	5,000
Rent	4,205	3,934
Transfer agent and regulatory fees	5,531	10,543
Travel (Note 10)	347	8,483
Total expenses	36,725	58,353
Loss before other expenses	(36,725)	(58,353)
Net loss and comprehensive loss for the year	(36,725)	(58,353)
Loss per share, basic and diluted	–	(0.01)
Weighted average shares outstanding	35,926,172	35,926,172

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

SONORA GOLD & SILVER CORP.
Interim Consolidated statements of changes in equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital		Share-based payment reserve	Deficit	Total shareholders' equity
	Number of shares	Amount $	$	$	$
Balance, February 1, 2014	35,926,172	11,542,225	1,075,715	(11,399,247)	1,218,693
Net loss for the period	–	–	–	(36,725)	(36,725)
Balance, April 30, 2014	35,926,172	11,542,225	1,075,715	(11,258,379)	1,181,967

	Share capital		Share-based payment reserve	Deficit	Total shareholders' equity
	Number of shares	Amount $	$	$	$
Balance, February 1, 2013	35,926,172	11,542,225	1,075,715	(11,221,654)	1,369,286
Net loss for the period	–	–	–	(58,353)	(58,353)
Balance, April 30, 2013	35,926,172	11,542,225	1,075,715	(11,280,007)	1,337,932

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

SONORA GOLD & SILVER CORP.
Interim Consolidated statements of cash flows
(Expressed in Canadian dollars)
(unaudited)

	Three Months ended April 30, 2014 $	Three Months ended April 30, 2013 $
Operating activities		
Net loss for the year	(36,725)	(58,353)
Changes in non-cash operating working capital:		
Amounts receivable	1,493	(2,356)
Prepaid expenses and deposits	–	6,125
Accounts payable and accrued liabilities	(1,549)	4,778
Net cash used in operating activities	(36,781)	(49,806)
Investing activities		
Mineral property costs	–	–
Net cash used in investing activities	–	–
Financing activities		
Repayment of notes payable	–	–
Proceeds from shares issued	–	–
Net Cash provided by (used in) financing activities		
(Decrease) in cash	(36,781)	(49,806)
Cash, beginning of year	239,596	410,227
Cash, and cash equivalents, end of year	202,815	360,420
Supplemental disclosures:		
Interest paid	–	–
Income taxes paid	–	–

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

1. Nature of Operations and Continuance of Business

The Company is an exploration stage company currently focussed on exploration and development of precious and base metal projects in Tanzania. The Company's registered office is located at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at April 30, 2014, the Company has not generated any revenues from operations and has an accumulated deficit of $11,435,973. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing through debt or equity. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Preparation and Principles of Consolidation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board on a going concern basis.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

These consolidated financial statements include the accounts of the Company and its inactive wholly-owned subsidiary, DJ Mines Limited, a company incorporated in Tanzania. All inter-company balances and transactions have been eliminated on consolidation.

(b) Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the impairment of exploration and evaluation assets and deferred income tax asset valuation allowances.

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

2. Significant Accounting Policies (continued)

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(d) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are charged to operations.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

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

Mineral Property Options

The Company does not record any expenditures made by the optionee in its accounts. It also does not recognize any gain or loss on its exploration and evaluation option arrangements but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the optionee is credited against costs previously capitalized.

(e) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. 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 (“CGU”) to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset’s value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of operations.

2. Significant Accounting Policies (continued)

(e) Impairment of Non-Current Assets (continued)

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of operations.

(f) Reclamation and Remediation Provisions

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in the statement of operations.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company's closure and reclamation obligations becomes available.

(g) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

2. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and restricted cash are classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. The Company does not have any assets classified as available-for-sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of amounts receivable.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(h) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(i) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. As expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized in the statement of operations with a pro-rata portion of the deferred premium.

2. Significant Accounting Policies (continued)

(j) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the statement of operations.

(k) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at April 30, 2014, the Company had 850,000 (2013 – 900,000) potential dilutive shares outstanding.

(l) Comprehensive Loss

Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in the statement of operations.

(m) Stock-based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(n) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2014, and have not been applied in preparing these financial statements.

New standard IFRS 9, “Financial Instruments”

New standard IFRS 10, “Consolidated Financial Statements” and IFRS 12 “Disclosure of interests in Other Entities”

New standard IFRS 11, “Joint Arrangements”

Amended standard IAS 27, Separate Financial Statements

Amended standard IAS 32, Financial Instruments: Presentation

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

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

3. Restricted Cash

The Company has pledged a guaranteed investment certificate (“GIC”) as collateral for the Company’s credit cards. The GIC earns interest of prime minus 1.909% and has a maturity date of January 14, 2015.

4. Exploration and Evaluation Assets

	Handeni $	Negese $	Total $
Acquisition Costs:			
Balance, January 31, 2012	731,642	164,353	895,995
Additions	–	20,628	20,628
Reallocation of option payments	(40,082)	40,082	–
Balance, January 31, 2013	691,560	225,063	916,623
Reallocation of option payments	(62,102)	62,102	–
Balance, January 31, 2014 and April 30, 2014	629,458	287,165	916,623
Exploration Costs:			
Balance, January 31, 2012, 2013 and 2014	–	72,705	72,705
Carry Amounts:			
As at January 31, 2013	691,560	297,768	989,328
As at January 31, 2014 and April 30 2014	629,458	359,870	989,328

4. Exploration and Evaluation Assets (continued)

(a) Handeni Property, Tanzania

On July 24, 2010 (amended on October 6, 2010), the Company entered into an option agreement to acquire the mineral licence for the Handeni property located in Tanzania.

To earn this interest, the Company must issue 700,000 common shares (issued) and make the following cash payments:

- initial payment of US$20,000 into an escrow account within 10 days of the execution of the agreement (paid and released to the optionor upon completion of due diligence);
- a further US$22,500 every 90 days for a total of US$90,000 until July 24, 2011. ($45,000 has been paid)

The initial term is for one year. The Company has the right of extending the option for up to two further one year periods and then one further six month period by notice in writing to the optionor and a further payment of US$45,000 at the beginning of the each new extension option period. If the purchase option is exercised prior to the expiry of the initial term or any extension option period, then no further instalment payments or extension payments will be required to be paid.

The Company can exercise the option at any time by paying the optionor US$1,000,000. The optionor retains a 2% net smelter royalty. The US$1,000,000 option exercise payment will be treated as an advance payment of the royalty.

The property is currently under litigation over the rights to the claim; however, the Company believes that it has a valid agreement and plans to continue exploration of the property once the litigation has been resolved. Refer to Note 10.

(b) Negese Property, Tanzania

On September 9, 2010, the Company entered into an option agreement to acquire the mineral licence to the Negese property located in Tanzania.

To earn this interest, the Company must issue 300,000 common shares (issued) and make the following cash payments:

- US$5,000 to be paid on execution of the agreement (paid);
- A further US$25,000 to be paid within 30 days on execution of the agreement (paid);
- Monthly payment of US$2,000 on the 1st day of each proceeding month from November 9, 2010 to September 9, 2011 (prorated for first month). ($5,400 has been paid);

The initial term is for one year. The Company has the right of extending the option for up to four further one year periods by notice in writing to the optionor and further monthly payments of US$5,000. If the purchase option is exercised prior to the expiration of any one year option period then the value of any unexpired option period will be deducted from the purchase price.

The Company can exercise the option at any time by paying the optionor US$1,300,000. The optionor retains a 2% net smelter royalty. The US$1,300,000 option exercise payment will be treated as an advance payment of the royalty.

On June 25, 2012, the Company received notification from the optionor confirming that, due to the Handeni Property claims being in dispute with the Tanzanian government, the optionor will apply US$200,000 of the option payments made on the Handeni Property to the future option payments on the Negese Property. As at January 31, 2014, the Company has reallocated $102,184 (US$100,000) from the option payments recorded on the Handeni Property and applied it towards the Negese Property.

(Expressed in Canadian dollars)

5. Share Capital

Authorized: 100,000,000 common shares without par value

6. Stock Options

The Company has adopted a fixed stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares. Stock options granted under this plan vest immediately.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $
Outstanding, January 31, 2012	3,500,000	0.35
Cancelled	(2,600,000)	0.42
Outstanding, January 31, 2013	900,000	0.16
Expired	(50,000)	0.50
Outstanding, January 31, 2014 and April 30, 2014	850,000	0.14

Additional information regarding stock options outstanding as at January 31, 2014 is as follows:

	Outstanding and exercisable		
Range of exercise prices $	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.10	350,000	1.4	0.10
0.16	500,000	2.5	0.16
	850,000	2.1	0.14

7. Related Party Transactions

(a) For the three months ended April 30, 2014, the Company incurred management fees of $10,200 (2013 - $10,200) to a company controlled by the President & CEO of the Company.

(b) For the three months ended April 30, 2014, the Company incurred management fees of $9,000 (2013 - $9,000) to a company controlled by the Chief Financial Officer of the Company.

(c) For the three months ended April 30, 2014, the Company incurred rent of $3,600 (2013 - $3,600) to a company controlled by the President & CEO of the Company.

8. Financial Instruments and Risks

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at April 30, 2014 as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, January 31, 2014 $
Cash	202,815	–	–	202,815
Restricted cash	11,500	–	–	11,500

The fair values of other financial instruments, which include amounts receivable and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable consist of GST refunds due from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. As at April 30, 2014, the Company has no financial instruments denominated in a foreign currency; however, the Company has exploration and evaluation assets in Tanzania with mineral property option agreement obligations denominated in US dollars. Refer to Note 4.

(d) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(f) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

(Expressed in Canadian dollars)

9. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended January 31, 2014.

10. Contingency

On February 11, 2011, the Minister for Energy and Minerals for Tanzania cancelled the mineral licence underlying the Handeni Property option agreement. The Company believes that it has a valid agreement and that the Minister for Energy and Minerals erred in law when it cancelled the mineral licence. The Company has appealed to the High Court of Tanzania to have the mineral licence reinstated. An appeal has been filed and the next hearing is to be held in June 2014. The Company awaits the outcome of this hearing and accordingly, the outcome cannot be reasonably determined at this time.

11. Segmented Information

The Company operates in one industry, the mineral resource industry, with all current exploration activities conducted in Tanzania.

2013 and 2014	Canada $	Tanzania $	Total $
Restricted cash	11,500	–	11,500
Exploration and evaluation assets	–	989,328	989,328
	11,500	989,328	1,000,828