# ENERGIZER RESOURCES INC.

**(An Exploration Stage Company)**

## Consolidated Financial Statements

## For the years ended June 30, 2015 and 2014

**(Expressed in US Dollars)**

**Report of Independent Registered Public Accounting Firm**

To the Board or Directors and Shareholders of Energizer Resources Inc.

We have audited the accompanying consolidated balance sheets of Energizer Resources Inc. as of June 30, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended. Energizer Resources Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Energizer Resources Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Energizer Resources Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Energizer Resources Inc. as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1, the Company has experienced negative cash flows from operations since inception and has accumulated a significant deficit which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

Mississauga, Canada
September 28, 2015

**Energizer Resources Inc.**
**Consolidated Balance Sheets**
***(Expressed in US Dollars)***

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 779,118 | $ 1,250,383 |
| Amounts receivable and prepaid expenses (note 5) | 65,516 | 430,596 |
| Loan to related parties (note 5) | 76,450 | 94,512 |
| Marketable securities (note 4) | 7,615 | 70,277 |
| Total current assets | 928,699 | 1,845,768 |
| Equipment (note 6) | 78,513 | 126,385 |
| Total assets | $ 1,007,212 | $ 1,972,153 |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities (notes 5 and 16) | $ 569,619 | $ 1,816,623 |
| Deferred premium on flow-through shares (note 8) | - | 37,145 |
| Warrant liability (note 11) | 844,851 | 1,830,151 |
| Total liabilities | 1,414,470 | 3,683,919 |
| **Stockholders' Deficiency** | | |
| Common stock, 650,000,000 shares authorized, $0.001 par value, 309,384,670 issued and outstanding (June 30, 2014 - 268,627,603) (note 9) | 309,385 | 268,627 |
| Additional paid-in capital (note 9) | 91,614,714 | 84,265,060 |
| Accumulated comprehensive (loss) / income | (4,323) | 8,771 |
| Accumulated deficit | (92,327,034) | (86,254,224) |
| Total stockholders' deficiency | (407,258) | (1,711,766) |
| Total liabilities and stockholders' deficiency | $ 1,007,212 | $ 1,972,153 |

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

Going concern (note 1)
Mineral Properties (note 7)
Contingency (note 15)

**Energizer Resources Inc.**
**Consolidated Statements of Operations and Comprehensive Loss**
***(Expressed in US Dollars)***

| | Year Ended June 30, 2015 | Year Ended June 30, 2014 |
|---|---|---|
| **Revenues** | $ - | $ - |
| **Expenses** | | |
| Mineral exploration expense (notes 5, 7 and 14) | 4,551,286 | 7,343,541 |
| Stock-based compensation (notes 5, 9 and 10) | 627,264 | 681,419 |
| General and administrative (note 5) | 863,124 | 1,357,682 |
| Professional and consulting fees (note 5) | 629,817 | 1,765,769 |
| Depreciation (note 6) | 47,872 | 44,446 |
| Foreign currency translation loss | 208,194 | 60,076 |
| Total expenses | 6,927,557 | 11,252,933 |
| Net loss from operations | (6,927,557) | (11,252,933) |
| **Other Income / (Expenses)** | | |
| Investment income | 10,111 | 96,092 |
| Sale of flow-through tax benefits (note 8) | 37,145 | 63,393 |
| Impairment of marketable securities (note 4) | - | (63,849) |
| Gain on sale of marketable securities (note 4) | 12,278 | - |
| Tax indemnity (note 16) | (147,845) | - |
| Part XII.6 tax and penalties on flow-through shares (note 16) | (42,242) | - |
| Change in fair value of warrant liability (note 11) | 985,300 | (23,286) |
| **Net Loss** | (6,072,810) | (11,180,583) |
| Unrealized (loss) / gain in marketable securities | (816) | 7,771 |
| Recognition of other than temporary loss (note 4) | - | 63,849 |
| Realized gains included in net loss (note 4) | (12,278) | - |
| **Comprehensive loss** | $(6,085,904) | $ (11,108,963) |
| **Loss per share - basic and diluted** (note 13) | $ (0.02) | $ (0.05) |
| **Weighted average shares outstanding - basic and diluted** (note 13) | 294,044,398 | 225,907,700 |

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

**Energizer Resources Inc.**
**Consolidated Statements of Cash Flows**
***(Expressed in US Dollars)***

| | Year Ended June 30, 2015 | Year Ended June 30, 2014 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | $ (6,072,810) | $ (11,180,583) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 47,872 | 44,446 |
| Gain on sale of marketable securities | (12,278) | (4,545) |
| Change in fair value of warrant liability | (985,300) | 23,286 |
| Impairment of related party loan | 53,603 | - |
| Non-cash amounts within mineral properties expense | 100,000 | 1,110,101 |
| Stock-based compensation | 627,264 | 681,419 |
| Impairment of marketable securities | - | 63,849 |
| Sale of flow-through tax benefits | (37,145) | (63,393) |
| Change in operating assets and liabilities: | | |
| Amounts receivable and prepaid expenses | 365,080 | (221,076) |
| Accounts payable and accrued liabilities | (1,247,005) | 1,013,493 |
| Net cash used in operating activities | (7,160,719) | (8,533,003) |
| **Financing Activities** | | |
| Proceeds from issuance of common stock, net of costs | 6,591,097 | 9,559,926 |
| Exercise of warrants | 72,051 | - |
| Net cash provided by financing activities | 6,663,148 | 9,559,926 |
| **Investing Activities** | | |
| Mineral property acquisition costs | - | (463,774) |
| Purchase of equipment | - | (132,014) |
| Loan to related party | (35,541) | 42,487 |
| Purchases of marketable securities, net of sales | - | (103,763) |
| Proceeds on sale of marketable securities | 61,847 | 55,424 |
| Net cash provided by (used in) investing activities | 26,306 | (601,640) |
| (Decrease) / increase in cash and cash equivalents | (471,265) | 425,283 |
| Cash and cash equivalents - beginning of year | 1,250,383 | 825,100 |
| Cash and cash equivalents - end of year | $ 779,118 | $ 1,250,383 |
| **Non-cash investing and financing activities:** | | |
| Issuance of common stock for mineral properties | $ 100,000 | $ 645,950 |
| **Supplemental Disclosures:** | | |
| Interest received | $ 1,000 | $ 8,327 |

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

**Energizer Resources Inc.**
**Consolidated Statement of Stockholders' Equity**
***(Expressed in US Dollars)***

| | Shares # | Amount $ | Additional Paid-In Capital $ | Accumulated Comprehensive Income (loss) $ | Accumulated Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| Balance - June 30, 2013 | 175,604,320 | 175,604 | 75,378,192 | (62,849) | (75,073,641) | 417,306 |
| Private placement of common shares subscribed | 90,523,283 | 90,523 | 10,337,961 | - | - | 10,428,484 |
| Cost of issue | - | - | (868,558) | - | - | (868,558) |
| Fair value of warrant liability | - | - | (1,806,866) | - | - | (1,806,866) |
| Issuance of common stock and warrants for mineral property | 2,500,000 | 2,500 | 643,450 | - | - | 645,950 |
| Stock-based compensation | - | - | 681,419 | - | - | 681,419 |
| Deferred flow-through premium | - | - | (100,538) | - | - | (100,538) |
| Other than temporary loss on marketable securities | - | - | - | 63,849 | - | 63,849 |
| Accumulated comprehensive loss | - | - | - | 7,771 | - | 7,771 |
| Net loss for the year | - | - | - | - | (11,180,583) | (11,180,583) |
| Balance - June 30, 2014 | 268,627,603 | 268,627 | 84,265,060 | 8,771 | (86,254,224) | (1,711,766) |
| Private placement of common shares subscribed | 39,185,714 | 39,186 | 5,348,814 | - | - | 5,388,000 |
| Cost of issue of private placement of common shares subscribed | - | - | (440,923) | - | - | (440,923) |
| Private placement of special warrants subscribed | - | - | 2,019,947 | - | - | 2,019,947 |
| Cost of issue of private placement of special warrants subscribed | - | - | (375,927) | - | - | (375,927) |
| Issuance of common stock for mineral property | 1,000,000 | 1,000 | 99,000 | - | - | 100,000 |
| Stock-based compensation | - | - | 627,264 | - | - | 627,264 |
| Issuance of shares to exercise warrants | 571,353 | 572 | 71,479 | - | - | 72,051 |
| Realized gain on marketable securities | - | - | - | (12,278) | - | (12,278) |
| Accumulated comprehensive loss | - | - | - | (816) | - | (816) |
| Net loss for the year | - | - | - | - | (6,072,810) | (6,072,810) |
| Balance - June 30, 2015 | 309,384,670 | 309,385 | 91,614,714 | (4,323) | (92,327,034) | (407,258) |

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

## 1. Nature of Operations and Going Concern

Energizer Resources Inc. (the "Company") is a State of Minnesota, United States of America incorporated entity. The Company's fiscal year end is June 30. The Company's principal business is the acquisition and exploration of mineral resources. During fiscal 2008, the Company incorporated Energizer Resources (Mauritius) Ltd., a Mauritius subsidiary and Energizer Resources Madagascar Sarl, a Madagascar subsidiary. During fiscal 2009, the Company incorporated THB Venture Ltd., a Mauritius subsidiary to hold the interest in Energizer Resources Minerals Sarl, a Madagascar subsidiary, which holds the Green Giant Property in Madagascar (see note 7). During fiscal 2012, the Company incorporated Madagascar-ERG Joint Venture (Mauritius) Ltd., a Mauritius subsidiary and ERG (Madagascar) Sarl, a Madagascar subsidiary. ERG (Madagascar) Sarl is 100% owned by Madagascar-ERG Joint Venture (Mauritius) Ltd. which is now 100% owned by Energizer Resources (Mauritius) Ltd. ERG (Madagascar) Sarl holds the Malagasy Joint Venture Ground (see note 7). During fiscal 2014, the Company incorporated 2391938 Ontario Inc., an Ontario, Canada subsidiary.

These consolidated financial statements ("financial statements") have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has yet to generate revenue from mining operations or pay dividends and is unlikely to do so in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity or debt financing to continue operations, the Company's ability to attract joint venture partners and off-take contracts and the attainment of profitable operations. As of June 30, 2015, the Company has accumulated losses of $92,327,034. As such, there is substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. Significant Accounting Policies

**Principals of Consolidation and Basis of Presentation**
These financial statements are presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). These consolidated financial statements include the accounts of Energizer Resources Inc. and its wholly-owned subsidiaries, Energizer Resources (Mauritius) Ltd., THB Ventures Ltd., Energizer Resources Madagascar Sarl, Energizer Resources Minerals Sarl, Madagascar-ERG Joint Venture (Mauritius) Ltd., ERG (Madagascar) Sarl and 2391938 Ontario Inc. All inter-company balances and transactions have been eliminated on consolidation.

**Use of Estimates**
The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses past experience and other factors as the basis for its judgments and estimates. Actual results may differ from those estimates. The impacts of estimates are pervasive throughout these consolidated 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 the revision affects current and future periods. Areas where significant estimates and assumptions are used include: the Binomial valuation of the warrant liability, the Black-Scholes valuation of warrants and stock options issued, the valuation recorded for future income taxes and the assumption that the Company will receive title to the properties after the Madagascar political situation stabilizes.

**Cash and Cash Equivalents**
Cash and cash equivalents include money market investments that are readily convertible to known amounts of cash and have an original maturity of less than or equal to 90 days.

## 2. Significant Accounting Policies - continued

**Marketable Securities**
The Company classifies and accounts for debt and equity securities in accordance with ASC Topic - 320, "Accounting for Certain Investments in Debt and Equity Securities". The Company has classified all of its marketable securities as available-for-sale, thus securities are recorded at fair market value and any associated unrealized gain or loss, net of tax, are included as a separate component of stockholders' equity, titled accumulated comprehensive loss. When an unrealized loss is classified as being other than temporary, it is expensed within the statement of operations and comprehensive loss.

**Equipment**
Equipment is recorded at cost, less accumulated depreciation, and consists of exploration equipment. Depreciation is computed on a straight-line basis over 3 years, which coincides with its estimated useful life.

**Mineral Property Costs**
Mineral property acquisition and exploration costs are expensed as incurred. The Company has not yet realized any revenues from its mineral operations. When it has been determined that a mineral property can be economically developed as a result of establishing probable and proven reserves, the costs then incurred to develop such property will be capitalized. Such costs will be amortized using the units of production method over the estimated life of the probable reserve. If properties are abandoned or the carrying value is determined to be in excess of possible future recoverable amounts the Company will write off the appropriate amount.

**Warrant Liability**
The Company accounts for its derivative instruments not indexed to its stock as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges must be adjusted to fair value through earnings. The Company has issued stock purchase warrants with exercise prices denominated in a currency other than its functional currency of U.S. dollars. As a result, these warrants were no longer considered to be solely indexed to the Company's common stock. Therefore, these warrants are classified as liabilities under the caption "warrant liability" and recorded at estimated fair value at each reporting date, computed using the Binomial valuation method. Changes in the liability from period to period are recorded in the statements of operations under the caption "changes in fair value of warrant liability". The Company records the change in fair value of the warrant liability as a component of other income and expense on the statement of operations as it is believed the amounts recorded relate to financing activities and not as a result of our operations.

**Comprehensive Income / (Loss)**
ASC Topic - 220, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income, its components and accumulated balances. As at June 30, 2015, the Company's only component of other comprehensive income is unrealized losses on marketable securities.

**Foreign Currency Translation**
The Company's functional and reporting currency is United States Dollars. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with ASC Topic - 830, "Foreign Currency Translation", using the exchange rate prevailing at the balance sheet date. Gains and losses arising on settlement of foreign currency denominated transactions or balances are included in the consolidated statements of operations and comprehensive loss.

**Long Lived Assets**
In accordance with ASC Topic - 360, "Accounting for Impairment or Disposal of Long Lived Assets", the carrying value of intangible assets and other long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

## 2. Significant Accounting Policies - continued

**Basic and Diluted Net Income / (Loss) Per Share**
The Company computes net earnings / (loss) per share in accordance with ASC Topic - 260, "Earnings per Share". ASC Topic - 260 requires presentation of basic and diluted earnings per share ("EPS") on the consolidated statement of operations and comprehensive loss. Basic EPS is computed by dividing net income / (loss) (numerator) by the weighted average number of shares outstanding (denominator) during the year. Diluted EPS gives effect to all dilutive potential common shares outstanding during the year using the treasury stock method and the "if converted" method for convertible instruments. In computing diluted EPS, the average stock price for the year is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. Diluted EPS and the weighted average number of common shares exclude all dilutive potential shares since their effect is anti-dilutive.

**Stock-Based Compensation**
The Company has a stock option plan as described in note 10. All stock-based awards granted, including those granted to directors not acting in their capacity as directors, are accounted for using the fair value based method, using more reliable measure of value of services and Black-Scholes pricing model. The fair value of stock options granted is recognized as an expense within the consolidated statements of operations and comprehensive loss and a corresponding increase in additional paid-in capital. Any consideration paid by eligible participants on the exercise of stock options is credited to common stock. The additional paid-in capital amount associated with stock options is transferred to common stock upon exercise.

**Income Taxes**
The Company has adopted Topic - 740 "Accounting for Income Taxes" which is required to compute tax asset benefits for net operating losses carried forward. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some of all of the deferred tax asset will not be realized. Potential benefits of net operating losses have not been recognized in these consolidated financial statements as the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years. Management does not believe unrecognized tax benefits will significantly change within one year of the balance sheet date. Interest and penalties related to income tax matters are recognized in income tax expense. As of June 30, 2015, there was no interest or penalties related to uncertain tax positions.

**Asset Retirement Obligations**
The operations of the Company are subject to regulations governing the environment, including future site restoration for mineral properties. The Company will recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement is incurred, the liability is recognized when a reasonable estimate of fair value can be made. The Company has determined that there are no asset retirement obligations or any other environmental obligations currently existing with respect to its mineral properties and therefore no liability has been recognized.

**Financial Instruments**
The fair value of cash and cash equivalents, amounts receivable, marketable securities, loan to related parties and accounts payable and accrued liabilities were estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The Company's exploration operations are in Madagascar and Canada, which result in exposure to market risks from changes in foreign currency rates. Financial risk is the risk to the Company's operations that arise from movements in foreign exchange rates and the degree of volatility of these rates.

**Fair Value of Financial Instruments Hierarchy**
ASC Topic - 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Cash and cash equivalents and marketable securities were in Level 1 within the fair value hierarchy. The three levels are as follows:

- 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 for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 includes marketable securities such as listed equities and U.S. government treasury securities.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using industry-standard models or other valuation methodologies. These models consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, current market and contractual prices for the underlying instruments as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include the warrant liability.
- Level 3 - Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value from the perspective of a market participant. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Company performs an analysis of all instruments subject to ASC Topic - 820 and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

## 3. Newly Adopted & Recent Accounting Pronouncements Potentially Affecting The Company

The following are recent FASB accounting pronouncements, which may have an impact on the Company's future consolidated financial statements.

- "Income Taxes (ASC Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists" ("ASU 2013-11") was issued during July 2013. FASB issued guidance on how to present an unrecognized tax benefit. The guidance is effective for annual periods beginning after December 15, 2013 for public companies. The Company has adopted this pronouncement.
- "Presentation of Financial Statements Going Concern (ASC Topic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern ("ASU 2014-15") was issued during August 2014. FASB issued guidance on how to account for and disclose going concern risks. This guidance is effective for annual periods beginning after December 15, 2016.

The adoption of ASC Topic 740 did not have a significant impact on the Company's results of operations, financial performance or cash flows. The Company is currently evaluating the impact of ASU 2014-15 on its consolidated financial statements.

## 4. Marketable Securities

Marketable securities consist of available-for-sale securities over which the Company does not have significant influence or control. As at June 30, 2015, $7,615 (June 30, 2014: $70,277) was invested in public companies. During the year ended June 30, 2014, the Company determined that $63,849 of unrealized losses were other than temporary and as such were recognized as an "other expense" in net loss and removed from accumulated other comprehensive income. During the year ended June 30, 2015, the Company sold marketable securities and recognized a gain on sale of $12,278 which has been recorded in the statement of operations and comprehensive loss and removed from accumulated other comprehensive income.

***Expressed in US Dollars)***

## 5. Related Party Transactions and Balances

Parties are related if one party has the direct or indirect ability to control or exercise significant influence over the other party in making operating and financial decisions. Parties are also related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount, which is fair value. The following are the related party transactions for the year ended June 30, 2015:

a) The Company incurred $98,595 (June 30, 2014: $112,200), in rent, included in general and administrative expenses, from a public company related by common management, Red Pine Exploration Inc. (TSX.V: "RPX").

b) 6,680,000 (June 30, 2014: 5,370,000) stock options were issued to related parties during the period with an exercise price between $0.15 and $0.20 (June 30, 2014: between $0.11 and $0.18). These stock options were valued at $438,035 (June 30, 2014: $513,364) using the Black-Scholes pricing model and were issued to directors and officers of the Company and included in stock-based compensation (Note 10).

c) The Company incurred $629,204 (June 30, 2014: $1,190,585) in expenses to directors, officers or entities in their control.

d) The Company incurred $1,927,797 (June 30, 2014: $1,533,953) in charges from a mining and engineering firm, DRA Minerals, for which one of the Company's former directors serves as a senior officer and a director which was included in mineral exploration expense.

e) During the year ended June 30, 2014, and subsequently revised during the year ended June 30, 2015, the Company entered into an agreement to option a 75% interest in the Sagar Property to Honey Badger Exploration Inc. (TSX-V: "TUF"), a public company related by common management (see Note 7).

The following are the related party balances as of June 30, 2015:

a) Related party balances of $Nil (June 30, 2014: $54,764) were included in amounts receivable and prepaid expenses and $24,048 (June 30, 2014: $33,019) related to rent, was included in accounts payable and accrued liabilities.

b) The Company advanced a short-term loan to MacDonald Mines Exploration Ltd. (TSX-V: "BMK"), a company related by way of common management, totaling $120,238 (June 30, 2014: $46,366). This loan is interest bearing at a rate of 5%. No amounts have been paid back up to June 30, 2015. Accrued interest due totalled $3,863 (June 30, 2014: $142) as at June 30, 2015, and is included in the balance. A $53,603 (June 30, 2014: $Nil) impairment charge was recorded against this loan as of June 30, 2015. The Company's short-term loan amounts with RPX of $24,964 and TUF of $23,182 which existed as of June 30, 2014 were repaid during the year.

c) Of the $Nil (June 30, 2014: $1,533,007) in charges from a mining and engineering firm for which one of the Company's former directors serves as a senior officer and director. $Nil (June 30, 2014: $633,418) is included in accounts payable and accrued liabilities.

d) $46,292 (June 30, 2014: $264,922) was included within accounts payable and accrued liabilities as a committed amount due to the former Chief Executive Officer of the Company.

## 6. Equipment

| | Cost | Accumulated Depreciation | June 30, 2015 Net Book Value | June 30, 2014 Net Book Value |
|---|---|---|---|---|
| Exploration equipment | $ 195,561 | $ 117,048 | $ 78,513 | $ 126,385 |

For the year ended June 30, 2015, depreciation expense totaled $47,872 (June 30, 2014: $44,446). For the year ended June 30, 2015, the Company purchased exploration equipment totaling $Nil (June 30, 2014: $132,014).

## 7. Mineral Properties

**Molo Graphite Property, Southern Madagascar, Africa**
On December 14, 2011, the Company entered into a Definitive Joint Venture Agreement ("JVA") with Malagasy Minerals Limited ("Malagasy"), a public company on the Australian Stock Exchange, to acquire a 75% interest to explore and develop a group of industrial minerals, including graphite, vanadium and approximately 25 other minerals. The land position covers 2,119 permits and 827.7 square kilometres and is mostly adjacent to the south and east of the Company's 100% owned Green Giant Property. The Company paid $2,261,690 and issued 7,500,000 common shares valued at $1,350,000.

On April 16, 2014, the Company signed a Sale and Purchase Agreement and a Mineral Rights Agreement with Malagasy to acquire the remaining 25% interest. The Company made the following payments at that time: $364,480 (CAD$400,000); issued 2,500,000 common shares subject to a 12 month voluntary vesting period and valued at $325,000; and issued 3,500,000 common share purchase warrants, valued at $320,950 using the Black-Scholes pricing model with an exercise price of $0.14 and an expiry date of April 15, 2019. On May 20, 2015 the Company paid $546,000 (CAD$700,000), and issued 1,000,000 common shares valued at $100,000 due to the completion of a bankable feasibility study ("BFS") for the Molo Graphite Property. Further, a cash payment of $801,584 (CAD$1,000,000) will be due within five days of the commencement of commercial production. Malagasy retains a 1.5% net smelter return royalty ("NSR") on the property. The Company also acquired a 100% interest to the industrial mineral rights on approximately 1-1/2 additional claim blocks comprising 10,811 hectares to the east and adjoining the Molo Graphite Property.

**Green Giant Property, Southern Madagascar, Africa**
During 2007 to acquire a 75% interest in the property, the Company paid $765,000, issued 2,500,000 common shares and 1,000,000 now expired common share purchase warrants to enter into a joint venture agreement for the Green Giant Property with Madagascar Minerals and Resources Sarl ("MMR"). On July 9, 2009, the Company acquired the remaining 25% interest for $100,000. MMR retains a 2% NSR. The NSR can be purchased, at the Company's option, for $500,000 in cash or common shares for the first 1% and $1,000,000 in cash or common shares for the second 1%.

On April 16, 2014, the Company signed a Joint Venture Agreement with Malagasy, whereby Malagasy acquired a 75% interest for non-industrial minerals on the Company's 100% owned Green Giant Property in Madagascar. On May 21, 2015, Malagasy terminated this Joint Venture Agreement. Therefore, the Company reobtained its 100% interest in all minerals on this property.

**Sagar Property - Romanet Horst, Labrador Trough, Quebec, Canada**
During 2006, the Company purchased from Virginia Mines Inc. ("Virginia") a 100% interest in 382 claims located in northern Quebec, Canada. Virginia retains a 2% NSR on certain claims within this property with other unrelated vendors holding a 1% NSR on certain claims, and a 0.5% NSR on other claims. For the other vendor's NSR, the Company has the right to buy back half of the 1% NSR for $200,000 and half of the 0.5% NSR for $100,000.

On February 28, 2014, the Company signed an agreement to sell an interest in the Sagar property to TUF, a public company related by common management. On July 31, 2014 and May 8, 2015, the agreement terms were revised. In order for TUF to acquire an initial 35% interest in the property, TUF has to pay $40,079 (CAD$50,000) by December 31, 2015 and has to spend $400,792 (CAD$500,000) by December 31, 2016 developing the property. TUF can earn further percentage interests up to 75% over a period ending December 31, 2019 by spending an additional $3,206,336 (CAD$4,000,000), paying the Company an additional $480,950 (CAD$600,000) and issuing to the Company the lesser of 15% of its issued and outstanding shares or 35,000,000 shares. Once these commitments have been met, TUF can acquire the remaining 25% interest for $1,618,600 (CAD$2,000,000) and issuing the lesser of 19.5% of TUF outstanding shares or 60,000,000 shares, including all previously issued shares.

***Expressed in US Dollars)***

## 8. Deferred Premium on Flow-Through Shares

The premium paid for flow-through shares in excess of the market value of the shares without a flow-through feature is initially recognized as a liability. The liability is subsequently reduced and recorded in the consolidated statements of operations and comprehensive loss on a pro-rata basis based on the corresponding eligible flow-through expenditures that have been incurred. The following summarizes the deferred premium liability on flow-through transactions for the year ended June 30, 2015.

| | | **June 30, 2015** | | **June 30, 2014** |
|---|---|---|---|---|
| Deferred premium on flow-through shares, beginning of year | $ | 37,145 | $ | - |
| Recognized on issuance of flow-through shares | | - | | 100,538 |
| Recorded to consolidated statement of operations and comprehensive loss | | (37,145) | | (63,393) |
| Deferred premium on flow-through shares, end of year | $ | - | $ | 37,145 |

## 9. Common Stock and Additional Paid-in Capital

a) On July 9, 2013, the Company issued 1,255,000 stock options to directors, officers and consultants at an exercise price of $0.11. The stock options were valued at $117,594 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.25%; expected volatility - 128%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

b) Between July 26, 2013 and August 1, 2013, the Company closed a private placement raising $2,043,452. The Company issued 16,950,001 common stock at prices at $0.12 and $0.121 per share. The Company paid a fee of $120,674 and issued 402,000 compensation warrants at an exercise price of $0.10 and 150,000 compensation warrants at an exercise price of $0.12. Each compensation warrant expires one year from the date of issue.

c) On September 19, 2013, the Company issued 750,000 stock options to directors, officers and consultants at an exercise price of $0.15. The stock options were valued at $96,675 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.25%; expected volatility - 127%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

d) On October 9, 2013, the Company issued 250,000 stock options to a director of the Company at an exercise of $0.13 and an expiry date of October 9, 2018. The stock options were valued at $27,550 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.25%; expected volatility - 126%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

e) On December 18, 2013 the Company closed a private placement raising a total of $1,479,024. The Company issued 11,189,215 common shares at a price of $0.13. The Company paid fees of $98,176 and issued 671,353 compensation warrants at an exercise price of $0.11. Each compensation warrant expires eighteen months from the date of issue.

f) On January 10, 2014, the Company issued 4,625,000 stock options to directors and officers of the Company at an exercise of $0.18 and an expiry date of January 10, 2019. The stock options were valued at $413,475 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.50%; expected volatility - 110%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

## 9. Common Stock and Additional Paid-in Capital - continued

g) On January 15, 2014 and January 31, 2014, the Company closed a private placement raising a total of $6,906,008. The Company issued 62,384,067 common shares at a price of $0.111 and 31,192,033 common share purchase warrants with an exercise price of $0.14. Of the 31,192,033 common share purchase warrants, 29,152,033 expire on January 14, 2017, 1,450,000 expire on June 14, 2015 and 590,000 expire on January 31, 2017. The Company paid fees, including commissions, legal fees and Toronto Stock Exchange ("TSX") fees of $649,707 and issued 3,396,744 compensation warrants at an exercise price of $0.11. Each compensation warrant expires eighteen months from the date of issue.

h) On February 6, 2014, the Company issued 250,000 stock options to a consultant of the Company at an exercise of $0.18 and an expiry date of February 6, 2019. The stock options were valued at $26,125 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.50%; expected volatility - 107%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

i) On June 23, 2014, the Company issued 2,500,000 shares of common stock to Malagasy valued at $0.13 per share for total consideration of $325,000 and 3,500,000 common share purchase warrants valued at $320,950 using the Black-Scholes pricing model, with an exercise price of $0.14 and an expiry date of April 15, 2019 for the remaining 25% interest in the Molo Graphite Property. The Black-Scholes assumptions used were as follows: risk free interest rate - 1.53%; expected volatility - 105%; dividend yield - NIL; and expected life - 5 years.

j) On July 3, 2014, the Company issued 4,800,000 stock options to directors and officers of the Company at an exercise of $0.15 and an expiry date of July 3, 2019. The stock options were valued at $404,160 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 1.50%; expected volatility - 97%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

k) On September 18, 2014 a total of 571,353 broker common share purchase warrants were exercised at $0.11 per share for proceeds of $72,051.

l) On September 26, 2014 the Company closed a private placement raising a total of $4,800,000. The Company issued 34,285,714 common shares at a price of $0.14. The Company paid fees, including commissions, legal fees and TSX fees of $413,225 and issued 1,928,571 compensation common share purchase warrants at an exercise price of $0.14 and an expiry date of September 26, 2016.

m) On December 16, 2014 the authorized capital of the Company was increased from an aggregate of four hundred fifty million (450,000,000) shares to six hundred fifty million (650,000,000) shares, par value of $0.001 per share, of which 640,000,000 will be deemed common shares and the remaining 10,000,000 will be deemed eligible to be divisible into classes, series and types as designated by the board of directors.

n) On December 30, 2014 the Company closed a private placement raising a total of $588,000. The Company issued 4,900,000 common shares at a price of $0.12. The Company paid fees, including commissions, legal fees and TSX fees of $27,698 and issued 147,000 compensation common share purchase warrants at an exercise price of $0.12 and an expiry date of December 30, 2016.

o) On February 26, 2015, the Company issued 4,480,000 stock options to directors and officers of the Company at an exercise of $0.20 and an expiry date of February 26, 2020. The stock options were valued at $223,104 using the Black-Scholes pricing model with the following assumptions: risk free interest rate - 0.94%; expected volatility - 89%; dividend yield - NIL; and expected life - 5 years. These stock options vested on the grant date.

***Expressed in US Dollars)***

## 9. Common Stock and Additional Paid-in Capital – continued

p) On May 4, 2015 the Company closed a private placement offering (the "Offering") of 20,550,998 special warrants ("Special Warrants") at a price of CAD$0.12 per Special Warrant, representing aggregate gross proceeds of $2,019,947 (CAD$2,466,120). Each Special Warrant entitles the holder, for no additional consideration, to acquire one unit ("Unit") of the Company, with each Unit comprised of one common share of the Company and one-half of one common share purchase warrant ("Warrant"). Each full Warrant entitles the holder to purchase one common share at a price of US$0.14 per common share until May 4, 2018. The Company paid fees, including commissions, legal fees and TSX fees of $375,927. On July 31, 2015, each of these Special Warrants were converted into one common share and one half one common share purchase warrant with an exercise price of $0.14 and an expiry date of May 4, 2018.

q) On May 20, 2015, the Company issued 1,000,000 shares of common stock at $0.10 per share valued at $100,000 as consideration for the Sale and Purchase Agreement and a Mineral Rights Agreements with Malagasy (note 7).

## 10. Stock Options

On March 9, 2006, the Company filed a Form S-8 registration statement in connection with its newly adopted 2006 Stock Option Plan (the "2006 Plan") allowing for the direct award of shares or granting of stock options to acquire up to a total of 2,000,000 common shares. On December 18, 2006, February 16, 2007, July 11, 2007, September 29, 2009, May 3, 2011, March 1, 2012, February 27, 2013, December 23, 2013 and January 30, 2015 the 2006 Plan was amended to increase the stock option pool by a total of 41,000,000 additional common shares.

The following is a continuity schedule of the Company's stock options, all of which vest on the grant date:

| | **Number of Stock Options** | **Weighted-Average Exercise Price ($)** |
|---|---|---|
| Outstanding and exercisable, June 30, 2013 | 27,140,000 | 0.28 |
| Issued | 7,130,000 | 0.16 |
| Expired | (5,600,000) | 0.39 |
| Cancelled | (200,000) | 0.26 |
| Outstanding and exercisable, June 30, 2014 | 28,470,000 | 0.23 |
| Issued | 9,280,000 | 0.17 |
| Cancelled | (2,385,000) | 0.21 |
| Outstanding and exercisable, June 30, 2015 | 35,365,000 | 0.22 |

***Expressed in US Dollars)***

## 10. Stock Options - continued

The following is a summary stock options outstanding as of June 30, 2015:

| Exercise Price ($) | Number of Stock Options | Expiry Date |
|---|---|---|
| 0.30 | 3,600,000 | July 1, 2016 |
| 0.29 | 1,650,000 | July 13, 2016 |
| 0.20 | 1,640,000 | October 24, 2016 |
| 0.21 | 1,910,000 | December 1, 2016 |
| 0.28 | 5,400,000 | March 7, 2017 |
| 0.23 | 180,000 | May 23, 2017 |
| 0.21 | 5,250,000 | February 27, 2018 |
| 0.11 | 1,080,000 | July 9, 2018 |
| 0.15 | 675,000 | September 19, 2018 |
| 0.13 | 250,000 | October 9, 2018 |
| 0.18 | 4,450,000 | January 10, 2019 |
| 0.18 | 250,000 | February 6, 2019 |
| 0.15 | 4,550,000 | July 3, 2019 |
| 0.20 | 4,480,000 | February 26, 2020 |
| | 35,365,000 | |

## 11. Warrants

The following is a continuity schedule of the Company's common share purchase warrants:

| | Number of Warrants | Weighted-Average Exercise Price ($) |
|---|---|---|
| Outstanding and exercisable, June 30, 2013 | 3,513,599 | 0.46 |
| Issued | 39,312,130 | 0.16 * |
| Expired | (270,000) | 0.19 |
| Outstanding and exercisable, June 30, 2014 | 42,555,729 | 0.16 * |
| Issued | 22,626,569 | 0.01 |
| Exercised | (571,353) | 0.11 * |
| Expired | (992,028) | 0.19 * |
| Outstanding and exercisable, June 30, 2015 | 63,618,917 | 0.10 * |

* Amount represents the converted USD exercise price

***Expressed in US Dollars)***

## 11. Warrants - continued

The following is a summary common share purchase warrants outstanding as of June 30, 2015:

| Exercise Price ($) | | Number of Warrants | Expiry Date |
|---|---|---|---|
| 0.11 | (b) | 3,396,744 | July 14, 2015 |
| 0.14 | (c) | 1,450,000 | July 14, 2015 |
| - | (d) | 20,550,998 | November 5, 2015 |
| 0.14 | | 1,928,571 | September 26, 2016 |
| 0.18 | (a) | 2,903,571 | November 15, 2016 |
| 0.12 | | 147,000 | December 30, 2016 |
| 0.14 | (c) | 29,152,033 | January 14, 2017 |
| 0.14 | (c) | 590,000 | January 31, 2017 |
| 0.14 | | 3,500,000 | April 15, 2019 |
| | | 63,618,917 | |

(a) On December 24, 2013, the Company re-priced and extended the term of the common share purchase warrants from an expiry of November 15, 2015 and an exercise price of $0.23 to November 15, 2016 and $0.18, respectively.
(b) The exercise price is CAD$0.14.
(c) The exercise price is CAD$0.18.
(d) On July 31, 2015, each of these special warrants were converted into one common share and one half one common share purchase warrant with an exercise price of $0.14 and an expiry date of May 4, 2018 (see also note 9).

The Company has accounted for the warrant liability in accordance with ASC Topic 815. These warrants are considered derivative instruments as they were issued in a currency other than the Company's functional currency of the US dollar. The estimated fair value of warrants accounted for as liabilities was determined on the date of issue and are marked to market at each financial reporting period. The change in fair value of the warrant liability is recorded in the consolidated statements of operations and comprehensive loss as a gain or loss and estimated using the Binomial model with the following weighted average inputs:

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Exercise price | $0.14 | $0.13 |
| Risk free rate | 1.53% | 1.19% |
| Expected volatility | 93.7% | 88% |
| Expected dividend yield | Nil | Nil |
| Expected life (in years) | 1.48 | 2.48 |

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Beginning balance, derivative warrant liability | $ 1,830,151 | $ - |
| Origination of derivative warrant liability January 2014 | - | 1,806,865 |
| (Gain)/Loss on change in fair value of derivative warrant liability | (985,300) | 23,286 |
| **Ending balance, derivative warrants liability** | $ 844,851 | $ 1,830,151 |

***Expressed in US Dollars)***

## 12. Income Taxes

Below is a reconciliation of the United States income tax provision at the statutory rate of 35% to the actual provision:

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Net loss | $ (6,072,810) | $ (11,180,583) |
| Rate | 35.00% | 35.00% |
| Expected income tax recovery | $ (2,125,480) | $ (3,913,200) |
| Tax rate changes and other adjustments | 352,480 | (798,420) |
| Stock-based compensation | 219,540 | 238,500 |
| Change in tax benefits not recognized | 1,208,360 | 4,480,270 |
| Non-deductible expenses | 345,100 | (7,150) |
| Income tax recovery reflected in the Consolidated Statements of Operations and Comprehensive Loss | $ - | $ - |
| The Company's income tax (recovery) is allocated as follows: | | |
| Current tax expense | $ - | $ - |
| Future tax recovery | - | - |
| | $ - | $ - |

**Future Income Tax Assets**
The Company's future income tax assets and liabilities as at June 30, 2015 and 2014 are as follows:

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| **Future Income Tax Assets** | | |
| Non-capital losses - United States | $ 8,855,130 | $ 8,786,110 |
| Exploration expenditures | 8,300,770 | 7,813,100 |
| Other deductible temporary differences | 141,860 | 10,900 |
| | 17,297,760 | 16,610,110 |
| Less: valuation allowance | (17,297,760) | (16,610,110) |
| Net future income tax assets | $ - | $ - |

***Expressed in US Dollars)***

## 12. Income Taxes - continued

The United States net operating loss carry forwards expire as noted below. The remaining deductible temporary differences may be carried forward indefinitely. Future tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The Company's United States net operating losses expire as follows:

| | |
|---|---|
| 2025 | $ 4,130 |
| 2026 | 29,460 |
| 2027 | 283,870 |
| 2028 | 909,180 |
| 2029 | 341,250 |
| 2030 | 3,435,600 |
| 2031 | 3,998,670 |
| 2032 | 5,264,970 |
| 2033 | 4,660,880 |
| 2034 | 3,642,800 |
| 2035 | 2,729,570 |
| | $ 25,300,380 |

## 13. Loss Per Share

Basic and diluted loss per share is computed using the weighted average number of common stock outstanding. Diluted loss per share and the weighted average number of shares of common stock exclude all potentially dilutive shares since their effect is anti-dilutive. As at June 30, 2015, there were a total of 98,983,917 (June 30, 2014: 71,025,729) potentially dilutive stock options and common share purchase warrants outstanding.

## 14. Segmented Reporting

The Company operates one operating segment, that being the exploration and development of mineral properties. The Company's President and Chief Executive Officer and Chief Financial Officer are the operating decision-makers, and direct the allocation of resources to geographic segments. No revenue has been generated by these properties. A summary of mineral exploration expenses by geographic area is as follows:

| For the year ended June 30, 2015 | Madagascar | Canada | Total |
|---|---|---|---|
| Mineral exploration expense | $ 2,852,214 | $ 1,699,072 | $ 4,551,286 |

| For the year ended June 30, 2014 | Madagascar | Canada | Total |
|---|---|---|---|
| Mineral exploration expense | $ 5,039,517 | $ 2,304,024 | $ 7,343,541 |

As at June 30, 2015, $65,299 (June 30, 2014: $58,110) in cash was held in Africa and $713,819 (June 30, 2014: $1,192,273) in cash was held in Canada. All of the Company's remaining assets were held in Canada.

## 15. Contingency

During fiscal 2014 the Company issued 17,889,215 flow-through shares requiring the Company to spend $3,812,642 on qualified Canadian Exploration Expenditures ("CEE") on or before December 31, 2014. As at December 31, 2014, the Company had unfulfilled CEE obligations of $422,415. As the Company did not fulfill the expenditure obligation, the Company accrued an amount of $42,242, included in accounts payable and accrued liabilities, related to Part XII.6 tax and related penalties and interest on the unfulfilled commitments.

Furthermore, the Company may also have to indemnify shareholders for taxes and penalties related to the unspent portion of the commitment. An estimated amount totaling $147,845 was recorded in accounts payable and accrued liabilities, related to the indemnification on the unfulfilled commitments based upon a combined tax rate of 35% of unspent flow-through funds raised. The outcome of the amount of actual claims and penalties, if any, is contingent on assessments of the Canada Revenue Agency.