# MONTERO MINING AND EXPLORATION LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

## 1.1 DATE

This Management's Discussion and Analysis ("MD&A") of Montero Mining and Exploration Ltd. ("Montero" or the "Company") has been prepared by management as of April 20, 2011 and should be read in conjunction with the audited financial statements and related notes thereto of the Company, as at and for the years ended December 31, 2010 and 2009, which were prepared in accordance with Canadian generally accepted accounting principles. The Company's Board of Directors have reviewed and approved this MD&A.

All amounts in the MD&A, financial statements and related notes are expressed in Canadian dollars unless otherwise noted.

## 1.2 OVERALL PERFORMANCE

**Current Year Highlights**

- The Company signed an amended agreement with respect to the Wigu Hill project in Tanzania, whereby it accelerated its earn-in to 60% of the project by making a once off full and final option payment to RSR (Tanzania) Limited ("RSR") the holder of the licences over the Wigu Hill project.

- The company continued work on the Wigu Hill Rare Earth Element ("REE") project in Tanzania with focussed exploration program on the eastern extent of the Wigu Hill carbonatite complex. The exploration program included establishment of a base camp and delineation of drilling targets on the REO enriched carbonatite dykes through trenching, geological mapping and hand-held radiometrics.

- The Company continued to carry out geological due diligence on the Phosco mineral project in South Africa.

- Montero completed the acquisition of the Girard property by issuing 1,000,000 common shares valued at $135,000 representing the outstanding acquisition payments due on the property.

- The Company raised cash of $2,912,500 by issuing 7,450,000 common shares in conjunction with two private placements undertaken during the year. In addition, Montero preserved cash reserves by settling indebtedness to related parties totalling $143,237 by issuing 1,112,389 common shares.

- Montero's operating expenses increased from $325,249 in the prior year to $928,779 in the current year due to increased exploration activity in the Company's operations.

- Exploration work continued on the Company's mineral properties whereby total cash expenditures of $1,585,038 were made during the year ended December 31, 2010 compared to cash expenditures of $251,807 in the comparative period in 2009, with the majority being spent on the Wigu Hill project in Tanzania.

- The Company recorded a net loss of $932,862 ($0.03 per share) for the year ended December 31, 2010 compared to a net loss of $390,410 ($0.03 per share) for the year ended December 31, 2009.

- Subsequent to the year-end, Montero successfully completed its Initial Public Offering ("IPO") raising $4,000,000 and became a public company listed on the TSX Venture Exchange trading under the symbol *MON.V*. These funds are being used to continue the drilling program at Wigu Hill, and the due diligence on the Phosco project as well for general working capital. Trenching results from the Wigu Hill project are outlined in *Our Exploration Results for the Year* section below.

**Company Overview**

The Company was incorporated on October 5, 2006 under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition and exploration of mineral properties in Tanzania, South Africa and Quebec, Canada. Montero has one wholly-owned subsidiary operating in Tanzania — Montero Resources Limited (incorporated in Tanzania on November 5, 2007) as well as two wholly-owned holding companies incorporated in the British Virgin Islands ("BVI") – Montero Resource Holding Limited (incorporated in BVI on April 26, 2010) and Montero Projects Limited (incorporated in BVI on May 3, 2010). On March 11, 2010, the Company completed a sale of its subsidiary, Montero Tanzania, to Minjingu Trust Limited, a company which has a director in common with Montero, for proceeds of $1, resulting in a gain on disposition of $19,638. The only asset involved in this sale was the revoked licence comprising the Minjingu licence area, which was previously impaired by the Company to a book value of $1.

Montero is a public company listed on the TSX Venture Exchange trading under the symbol *MON.V*. The address of the registered and records office of the Company is 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6; Phone: 416-840-9197; Fax: 866-688-4671; Web: www.monteromining.com.

The Company is engaged in the identification, acquisition, evaluation and exploration of mineral properties primarily focused on rare earth elements (REE), phosphates and uranium in Tanzania, South Africa and Quebec, Canada, respectively. The Company has not yet determined whether its properties contain sufficient mineral reserves, such that their recovery would be economically viable.

The key performance driver for Montero is to find and develop mineral deposits to create wealth for shareholders. This is being achieved through acquiring and exploring properties which have the highest potential for future discoveries or development of existing mineral resources into mineable reserves. Management works to rationalize all of its significant core holdings to maintain percentage ownership while working with others to share the risk of exploration of these properties. Management acquires its mineral properties through the issuance of common shares where possible to preserve the Company's cash reserves.

Management is well-rounded with the necessary skills required to achieve success, both in the technical and financial area with experienced exploration and consulting geologists and those with entrepreneurial and financial experience. Shareholders are represented by a strong Board of Directors, experienced in the exploration mining industry where the Board and management has collectively more than 100 years of exploration experience and have been part of more than 4 discoveries that have found mineral resources and gone into production.

The Company has access to consulting geologists with technical and geological expertise in the countries where the exploration properties are held. Consultants are retained through consulting contracts.

### Our Exploration Process

Montero uses its management's strengths to acquire properties that can be tested, further explored to target a resource and ultimately brought into production, although there are no assurances that this will occur. These can be acquired through assessment of projects offered to the Company, literature research or conceptual models. The appropriate exploration/development strategies for each style of deposit and mineral occurrences with time frame and key decision points throughout the year are applied. During periods where the Company's cash resources are limited and the markets are not receptive to financing, the Company continues with minimum exploration requirements on the properties to maintain the licences in good standing.

### Our Exploration Results for the Year

Michael J Evans, Montero's consulting geologist, who is a qualified person as defined by National Instrument 43-101, reviewed the technical information presented herein.

### Tanzania

#### <u>Wigu Hill Project</u>

The Wigu Hill project is located 170 kms south-west of Dar es Salaam and 68 kms south of Morogoro the nearest major regional center (straight line distances), with four contiguous licences covering an area of 142 square kms.

On May 26, 2008, the Company and RSR (Tanzania) Limited ("RSR") entered into an agreement whereby RSR granted the Company an exclusive option to earn an initial 60% interest in the Wigu Hill project. In order to exercise this option (the "First Option"), the Company is to incur exploration expenditures of USD $3.5 million over a 3 year period (or alternatively complete a prefeasibility study) and make option payments of USD $20,000 on each six month anniversary of the agreement. The

Company has the further right to earn an additional 10% interest in the project for a USD $2 million payment (payable in cash or, by mutual agreement, publicly traded shares of the Company). After the First Option is exercised, a joint venture will be formed, the terms of which will provide for dilution subject to a deemed expenditure formula and, where a party's interest is diluted to less than 10%, conversion of such interest to a 2.5% net smelter returns royalty ("NSR"). The Company has the right to purchase all or part of the NSR for USD $1 million per each 0.5%.

An addendum to the agreement was signed on June 30, 2009 whereby the 3-year First Option period was extended a further 18 months to expire November 28, 2012, and the amount of each further option payment payable on each six month anniversary during the term of the First Option, was increased from USD $20,000 to USD $30,000.

A further amendment to the agreement was signed on April 27, 2010 to accelerate the 60% earn-in % by a final payment of USD $150,000 to RSR on or before April 30, 2010 (which payment was made on April 30, 2010). No other option payments or exploration expenditures are required in order for the Company to exercise the First Option and the Company has a 60% vested interest in the Wigu Hill project. After the exercise of the First Option, RSR will transfer the prospecting licenses comprising the Wigu Hill Project (the "Licences") to the newly-formed joint venture and the Company will concurrently pay RSR a further USD $50,000 (paid). The Company is currently in the process of establishing the joint venture. After transfer of the Licences, the Company shall become obligated to incur exploration expenditures of USD $3.5 million (or alternatively complete a prefeasibility study) on or before November 28, 2012. The terms remain unchanged for the Company to earn an additional 10% interest in the project, except that the date by which the Company has to complete these requirements was extended to January 27, 2013.

The Wigu Hill complex is elliptical with dimensions 6.4 x 3.2 kms and historical total Rare Earth Elements ("REE") grades of >10% with associated uranium and phosphate reported. REE hosting carbonatite sheeted dykes within the complex are between 0.6m – 8m wide with strikes of over 700m. Historic values obtained from the dykes in the complex graded on average 14.5% REE's, dominated by the Light REE's which include lanthanum, cerium and praseodymium which constitute 75 – 88% of total REE's. Hosting minerals are predominantly bastnasite, with minor synchysite and parasite also found.

The exploration sampling program in 2009 identified a number of REE enriched sheeted carbonatite dyke systems that form the complex.

Exploration efforts were mainly focussed on the eastern end of the Wigu Hill Complex. Trenching, sampling and geological mapping of the Tembo (Elephant) Target (Target 6) was finalised during the third quarter. The base camp was consolidated and new equipment purchased.

In the fourth quarter of 2010, exploration was concentrated on the Camp or Twiga (Giraffe) Target on which trenching had reached an advanced stage. Work focused on finalising the sampling and geological logging of the trenches and the surface geological mapping to define the distribution and size of the carbonatite dykes. The samples were transported to Mwanza to await submission to a laboratory for assay. Mapping established that there are two main orientations of the carbonatite dykes indicative of intrusion into a conjugate set of fractures in the Usagaran Gneisses. The "EW" trending dykes are up to 7m thick and can be traced over >200m; the "NS" trending dykes are up to 4m thick and can be traced over a strike of >300m.

Mapping of the Chui Target was also finalised and a set of channel samples taken without any trenching being done. This target area is located in the NW of Wigu Hill at an elevation of about 600m and access is very difficult. Consequently, further work here has been postponed and efforts focussed on the more accessible areas on the lower fringe of the hill.

An area of higher radiometric background was identified along the new access road and 1.5km west of the Tembo Target. This area, named the Tumbili Target hosts a carbonatite breccia which can be traced over a zone >600m long x 300m wide. Two trenches confirmed the continuity of the breccia and also identified a Dolomitic carbonatite dyke with a potential width of +8m. Detailed mapping is underway in 2011.

Based on the positive exposures found on the Tembo and Twiga Targets, planning commenced for drilling of these carbonatite dykes. A drilling agreement was concluded with a Tanzanian based company to undertake the work. A bulldozer was mobilised to site and the current roadway was extended up the eastern side of the hill to the Tembo Target. Based on geological data, drill pads were prepared on both the Tembo and Twiga Target areas and arrangements made for the drill to be mobilised to site.

ALS Chemex was selected for processing of the Wigu samples. The certificate for the QC sample prepared for Montero was received from African Mineral Standards (AMIS) following completion of the round robin assays. The sample grades at 11.36% TREE, with the main concentrations being Ce, 4.07%, La, 2.98% and Nd, 0.92%. This sample material will be submitted with all samples submitted from Wigu for QC purposes.

A digital terrain model of Wigu Hill was undertaken by PhotoSat during the 2$^{nd}$ half of 2010 and was delayed by constant cloud cover, but the data was all acquired by the year end and the ortho photo images are now being processed. AMEC Earth & Environmental UK Ltd. ("AMEC)" have been appointed to assist Montero with the evaluation of the preliminary resource on the carbonatite dykes on eastern Wigu Hill. A site visit undertaken late in 2010 followed with data exchange and preliminary survey work to define the position and elevations of the trenches and to bring survey control points into the areas of interest.

A 100kg portion of the 500kg bulk sample sent to AMIS is being used by Mintek of South Africa with a view to using the material for preliminary metallurgical testwork. Meetings were held with Mintek to discuss their expertise in this field and to secure an acceptable proposal for testwork to be considered for Wigu. A proposal from Mintek was reviewed and accepted and an initial start was made on the testwork.

During the year ended December 31, 2010, the Company had incurred cumulative acquisition costs of $354,721 which represents the commitment under the agreement of the option payments and the annual renewal licence fees. Cumulative exploration expenditures of $1,212,943 were incurred as of December 31, 2010 which included the establishment of the base camp, detailed geological mapping, trenching, drilling mobilization costs and road building to access and prepare drill targets areas.

*Exploration events subsequent to December 31, 2010*

Progress was made with the drilling in the first quarter of 2011. A core drilling programme on the easternmost Twiga Target of 2,500m was planned. Good progress has been made with the drilling which is being advanced rapidly for completion before the rain season. Core processing, geological logging and sampling procedures are in progress.

During drilling, additional trenching was undertaken to assess the continuity of specific dyke zones. Some carbonatite with high bastnasite content were identified and the width and strike extended with the trenching.

Following AMEC's site visit for the evaluation of the preliminary resource on the carbonatite dykes on eastern Wigu Hill, data exchange has commenced. As soon as the assay values for the trenches and drill holes are to hand, a geological model will be constructed the assays included and a resource calculation undertaken. This will be followed by release of a NI43-101 compliant report outlining the resource obtained.

Initial surveying of the trenches and boreholes drilled to date has been undertaken for inclusion in the database. In addition all of the data from PhotoSat has been received and the DTM and associated ortho photo images can now be included in the database when ready.

A preliminary environmental study has been undertaken on the Wigu Hill to identify the fauna and flora on the property, with specific focus on the main tree species especially on the upper reaches of Wigu Hill. This study will serve as a baseline study for more detailed EIA studies in the future.

In early April, consistently high assay values were obtained from trench results from the Twiga Target. Selected values (all sample widths are true widths) were returned as follows:

<u>NW-SE Dykes set:</u>

- Tr CT7a    13.3% TREO ("Total Rare Earth Oxides") over 5.84m
- Tr CT8a    3.7%TREO over 25.8m, including 7.0%TREO over 9.35m

<u>E-W Dyke set:</u>

- Tr CT7a    10.4%TREO over 6.10m
- TrCT8b    12.4%TREO over 5.70m
- Tr CC1    11.3%TREO over 8.0m, including 18.6 over 3.65m and 27.3%TREO over 1m
- Tr CC5    12.4% TREO over 10.15m

## Iringa and Liwale Licence Areas

On April 24, 2007, the Corporation purchased all the right, title and interest in certain licenses from a Tanzanian vendor as follows: three licenses in the Iringa area, four licenses in the Liwale area and one license which was subsequently disposed. The consideration paid for all of the licenses was a) 1,600,000 Shares issued with a fair value of $0.20 per Share; b) a payment of USD $50,000; and c) the payment of all back taxes and applicable penalties in respect of renewals relating to the licenses.

The Iringa licence area is 350 kms west-south-west of Dar es Salaam located in the Kilombera Basin covering an area of 748 square kms within which indications of uranium mineralization occur in a granite-pegmatite host. Exploration work has consisted of a research programme to gather information from the Geological Survey offices in Dodoma. The data obtained confirmed the high radiometric background of the alkali granites in the area and the geological reports provided details of the individual intrusives. The Iringa licence area has high total count radiometric background readings ranging from +1,000cps to 3,500cps. The Kimhandu (32 square kms) licence is grouped with the Iringa licence area.

The Liwale licence area is approximately 400 kms south-west of Dar es Salaam and is located in the east edge of the Selous (Luwegu) Basin. The licence area covers approximately 1,590 square kms in total. The area covers a swathe of the Selous basin infilled with Karoo System age sandstone known to host uranium mineralization throughout southern Africa. The Selous Basin has the key characteristics required for the formation of such deposits. Reconnaissance fieldwork in 2007 over the central licence area included a scintillometer survey, shallow trenching and stream sampling with results indicated a peak value of 6.67 ppm uranium.

Research at the Geological Survey in Dodoma was undertaken in preparation for future exploration activities. In the meantime the Company has maintained the licences in good standing.

During the year ended December 31, 2010, the Company had incurred cumulative acquisition costs of $204,404 and $254,356 on the Iringa and Liwale licences, respectively which includes the initial acquisition costs pursuant to the agreements noted above, as well as annual licence renewal payments. Cumulative exploration costs total $43,417 and $61,126 on Iringa and Liwale licences, respectively. Minimal exploration expenditures were incurred during the year ended December 31, 2010 as Montero is currently focusing on the Wigu Hill project.

During the year ended December 31, 2010, the Company decided not to pursue exploration in one of the licence areas of Liwale and wrote off the related mineral properties and exploration costs of $26,085 as an impairment loss. During the year ended December 31, 2009, the Company decided not to pursue exploration in one of the licence areas of Iringa and wrote off the related mineral properties and exploration expenditures costs of $65,518 as an impairment loss.

*Exploration events subsequent to December 31, 2010*

A reconnaissance exploration program in the second quarter of 2011 is planned to assess the anomalies to define potential uranium targets within the Iringa and Liwale licence areas.

**South Africa**

**Phosco project**

On May 7, 2010 the Company's newly-formed wholly-owned subsidiary, Montero Projects Limited ("Montero Projects"), a company incorporated in the British Virgin Islands, entered into a binding term sheet agreement with Eurozone Investments Limited ("Eurozone"), whereby Montero Projects has the exclusive right to acquire the shares in Eurozone's subsidiary, Mellosat (Pty) Limited ("Mellosat") . Mellosat and its subsidiaries holds interests in 4 phosphate exploration projects in South Africa (the 'Phosco assets'). The Company paid $100,000 to Eurozone in consideration for receiving an exclusivity period to conduct due diligence. In September, 2010, the Company and Eurozone agreed to rescind the May 7, 2010 agreement in order to extend the Company's due diligence period. On October 18, 2010, Montero Projects entered into a new binding term sheet agreement with Celtic Trust Company Limited ("Celtic"), the parent company of Eurozone, whereby Montero Projects has the exclusive right to acquire the shares in Eurozone, whose subsidiaries own the Phosco assets. The exclusivity period of nine months to complete due diligence commenced on October 18, 2010 and expires on July 18, 2011. The consideration for receiving this exclusivity period is covered by the payment to Eurozone of $100,000 noted above. On or before July 18, 2011, the expiry of the exclusivity period, the Company must allot and issue 5 million common shares at a deemed price based on the market price of the Shares of the Company at the time of the issuance, if it plans to proceed with the acquisition of Mellosat.

The Phosco project covers four phosphate exploration projects in South Africa, namely: Phillips Kraal, Duyker Eiland and Lamberts Bay in the Western Cape and Bierkraal in the Northwest Province. The due diligence reported that there is sufficient topographical evidence to indicate an accumulation of phosphatic sediments in the Lamberts Bay area. The Duyker Eiland project area has historical prospecting results indicative of 30Mt of phosphatic sands (these estimates pre-date the introduction of NI 43-101 and are not current under NI 34-101). The Bierkraal project area is located in an apatite-rich layer of the Bushveld Igneous Complex.

During the due diligence period compilation of the historic data, field visits, mapping and inspection of potential drilling locations was undertaken. Montero has confirmation that the licences for Phillips Kraal, Duyker Eiland and Lamberts Bay are in good standing. The application for a prospecting licence at Bierkraal is in process, with the application formally upheld by the Director General of Mineral Resources in early December.

All preliminary costs of this transaction have been classified as mineral properties and exploration expenditures at this time. If the transaction does not proceed at the end of the Exclusivity Period on July 18, 2011, these costs will be charged to operations.

During the year ended December 31, 2010, the Company's initial costs of this transaction totaled $226,708 which includes acquisition costs of $157,588 (primarily representing the payment to Eurozone) and exploration costs of $69,120, representing initial due diligence costs.

*Exploration events subsequent to December 31, 2010*

As part of the due diligence for the acquisition of the Phosco assets, exploration work included a 1,140m RC drilling program at the Duyker Eiland and Phillips Kraal projects. The drilling has been completed as of the date of this report, and drill logging, sample preparation and submissions are underway. Samples are being assayed at Scientific Services laboratories in Cape Town, South Africa and all results are expected in early April 2011.

AMEC has been appointed to assist Montero with resource evaluation and an initial site visit was undertaken to assist in completion of the resource estimates and preparation of a NI 43-101 compliant report.

**Canada**

**<u>Girard Claim Area, Quebec</u>**

The Girard Claim area is located 33 kms south of Cadillac town which lies within the Abitibi-Temiscamingue region, in south-west Quebec province. The licence area is accessible via Highway 117 and all weather roads access through the centre of the licence block. The terrain is partially covered by glacial till and is undulating with temperate forest. The claims are contiguous over an 89.5 square km area.

On April 25, 2007, the Company entered into an agreement to acquire a 100% interest in Girard claims for consideration of 2,000,000 shares (issued) valued at $625,000 and by incurring exploration expenditures totalling $640,000 over five years. The Girard claim area covers 157 licence claims.

Anniversary payments totalling $235,000 and payable on or before November 7 each year are as follows: $35,000 – 2007 (paid); $65,000 – 2008 (paid); $115,000 – 2009; $10,000 – 2010; and $10,000 – 2011. On July 10, 2009, the Company entered into arrangement whereby the remaining payments to be paid as follows: $115,000 – May 7, 2010; $10,000 – May 7, 2011 and $10,000 – May 7, 2012. On May 7, 2010, the Company satisfied the remaining of such payment obligations by issuing 1,000,000 shares at a deemed price of $0.135 per share.

The claims are subject to a 2% NSR. The Company has the right to purchase, at any time, either one-half or all of the royalty for a purchase price of $1,000,000 or $2,000,000 respectively.

The exploration work in 2007 and 2008 included geological mapping, radiometric and scintillometer surveys and a technical report. Three areas were identified with presence of uranium in anomalous concentrations within the North Beraud zone; the Ridge and LSD areas and an area previously explored in the 1980's. Recommendations from the technical report have shown uranium grades to exist.

In 2009 an infill till sampling and coincident magnetic survey over the North Beraud uranium/rare earth anomaly in the western/central zone of the licence area. Results covering 29 line kms indicated 3 main target areas for anomalous uranium values in the western portion of the grid and contoured values above 4.75ppm uranium delineated a series of flat lying zones with higher uranium values and results indicated amounts greater than 100ppm of more valuable heavy REE in the combined values of erbium, dysprosium and ytterbium.

Exploration work in 2010 included a magnetic survey in the King Lake and East Ledah vicinity in the centre of the licence block. The claims have been maintained and are in good standing.

As of December 31, 2010, the Company incurred cumulative acquisition costs of $897,336. In addition, cumulative exploration expenditures total $318,366 and total tax credits of $84,014 were received.

*Exploration events subsequent to December 31, 2010*

Proposed exploration work is to include a valuation and assessment study to focus further exploration work later in the seasonal exploration period of the year.

**<u>Lac Yvonne Claim Area, Quebec</u>**

The Lac Yvonne claim area is located approximately 100 kms south of Chibougamau in the Bressani Township, in south-west Quebec province. The property is comprised of 18 claims wholly owned by the Company and the claims that are contiguous covering a 10.1 square km area. Historical data indicate uranium and gold showings along granite/pegmatite-greywacke/iron formation sheared contacts. The licence area hosts three pegmatite uranium showings.

On March 14, 2008, the Company entered into a purchase and sale agreement to acquire a 100% interest in 12 of the Lac Yvonne claims for consideration of 100,000 shares at a deemed price of $0.35 per share, which were issued on April 10, 2008. A further 6 claims were transferred subsequent to the initial acquisition.

The claims are subject to a 2.0% NSR. The Company has the right to purchase, at any time, either one-half or all of the royalty for a purchase price of $1,000,000 or $2,000,000 respectively.

The exploration work after acquisition included 12.6 kms of line curing followed by a magnetic geophysical survey, a radiometric survey on areas previously not surveyed and mapping on the dikes as outlined in the magnetic geophysical survey. The claims have been maintained and are in good standing.

As of December 31, 2010, the Company incurred cumulative acquisition costs of $36,666. In addition, cumulative exploration expenditures total $40,764 and total tax credits of $5,704 were received.

*Exploration events subsequent to December 31, 2010*

Proposed exploration work is to include a valuation and assessment study to focus further exploration work later in the seasonal exploration period of the year.

## Risk Factors

Through its operations, the Company is exposed to various business risks outlined below. Additional risks and uncertainties, including those that we are not aware of now or that we currently deem immaterial, may also adversely affect our business.

- The Company has not been profitable since inception and it may continue to incur substantial losses.
- The Company operates in the highly speculative business of mining exploration and development and is currently in the exploration stage. The Company has not yet determined whether their properties contain enough mineral reserves, such that their recovery would be economically viable.
- The Company is exploring for mineral resources and these commodities are subject to pricing and other risks.
- The Company may not be able to secure adequate financing to support the expenditures required to sustain the Company until profitable operations are achieved.
- The Company operates in foreign jurisdictions and although professional advice is obtained to ensure the Company meets all the local requirements, there may be deficiencies in some areas.
- The Company faces currency risks in its operations.
- The Company has limited personnel with various degrees of knowledge concerning their area of expertise and there may be instances where segregation of duties does not exist and reliance must be placed on outside advisors to assist with complex areas.

The Company undertakes its best efforts to mitigate the above risks using the resources at its disposal, but believes that uncertainties and risks do exist in its business operations.

The Company has incurred losses since inception and as at December 31, 2010, the Company had an accumulated deficit of $2,858,383. The Company’s consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles on a 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. The ability of the Company to continue as a going concern is dependent upon the continued support from its shareholders and directors, the ability to continue to raise adequate financing or achieving profitable operations in the future, the outcome of which cannot be predicted at this time. Management is of the opinion sufficient working capital will be obtainable from external financing to meet the Company's liabilities and commitments as they become due, although there is risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. Subsequent to the year-end, the Company completed its IPO, raising $4,000,000 and became listed as a public company on the TSX Venture Exchange. The Company's consolidated financial statements do not reflect any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

**Financial Performance**

During the year ended December 31, 2010, the Company continued exploration work on its mineral properties and maintained their licences through the payment of the required acquisition costs, including licence fees. The majority of the work was conducted on the Wigu Hill prospect in Tanzania. The details of the expenditures on the Company's mineral properties for acquisition costs and exploration expenditures are outlined above. The total cash expenditures on these mineral properties totalled $1,585,038 for the year ended December 31, 2010 compared to $251,807 for the comparative year ended December 31, 2009. In addition, the Company issued 1,000,000 common shares valued at $135,000 to settle the remaining obligations due with respect to the Girard property in Quebec.

The Company's operating costs increased for the year ended December 31, 2010 from $325,249 in 2009 to $928,779 in 2010, primarily due to increased activities in the Company and included all the related costs incurred which were required to prepare the Company for its IPO filing. Accounting and administrative wages and management fees increased due to more staff being required and more time being spent by management on Montero. Consulting fees increased due to more manpower required in the financial area and this assistance contributed to decreases in the audit and tax fees, as well as timing of payments and accruals. Investor relations increased due to initial IPO costs. Other costs including legal fees, office and general expenses, rent and occupancy costs and travel expenses are higher due to increased activity in the company due to new exploration projects and the Company's IPO filings. Project investigation costs focused on general mineralization research and travel. The Company granted stock options during the year ended December 31, 2010 which resulted in $167,109 of stock-based compensation expense.

At December 31, 2010, the Company had cash and cash equivalents on hand of $1,526,902 compared to $936,950 on December 31, 2009. Subsequent to the year-end, Montero raised $4,000,000 in conjunction with the successful completion of its IPO. These funds will be used to fund its exploration programs, for operations and for general working capital purposes and the Company will require further funds in the future since it currently has no revenue sources. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

### Company Objectives and the Year Ahead

The Company's corporate objectives are to focus on exploring, discovery and development of grass-roots rare earth element, phosphate and uranium deposits in geologically prospective under-explored regions in southern and east Africa, South Africa and Quebec, Canada.

The Company believes that it has a portfolio of rare earth, phosphate and uranium projects that can add value to the company and will seek methods of adding value to these assets by drilling resources in a timely fashion by raising exploration funding or joint venture or by disposal of non-strategic assets.
The Company has managed its cash flow to maximize the expenditures which can be spent on its exploration programs and reduce to a minimum corporate expenses with small offices, contracted staff and minimal overheads. The Company incurred one-time costs in 2010 to complete its IPO and is now a publicly listed entity on the TSX Venture Exchange.

## 1.3 SELECTED ANNUAL INFORMATION

| | Year ended December 31 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Legal, audit, tax fees | $ 128,348 | $ 118,327 | $ 100,620 |
| Management fees | 203,351 | 112,027 | 110,916 |
| Project investigation costs | 60,117 | 10,400 | 11,980 |
| Stock-based compensation | 167,109 | - | 305,172 |
| Travel and accomodation | 116,858 | 33,999 | 47,559 |
| Other operating costs | 252,996 | 50,496 | 35,632 |
| Impairment of mineral properties | 26,085 | 65,518 | 465,417 |
| Interest income and other | (22,002) | (357) | (8,309) |
| Net (loss) | (932,862) | (390,410) | (1,068,987) |
| Basic and diluted (loss) per share | $ (0.03) | $ (0.03) | $ (0.08) |
| | | | |
| Mineral properties and exploration costs | $ 3,469,486 | $ 1,775,533 | $ 1,589,244 |
| Total assets | 5,295,760 | 2,747,234 | 1,742,242 |
| Total liabilities | 382,824 | 136,859 | 181,180 |
| Shareholders' equity | $ 4,912,936 | $ 2,610,375 | $ 1,561,062 |

The above financial information has been prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles.

## 1.4 RESULTS OF 2010 OPERATIONS

Montero continued its exploration work on its properties and completed acquisition agreements covering its properties in Tanzania, South Africa and Quebec, Canada during the year. A summary of expenditures made during the year is outlined below:

| | Mineral Property Expenditures Year ended December 31, 2010 | | | Mineral Property Expenditures Year ended December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Acquisition | Exploration | Total | Acquisition | Exploration | Total |
| | $ | $ | $ | $ | $ | $ |
| **Tanzania** | | | | | | |
| Wigu Hill | 235,266 | 1,041,194 | 1,276,460 | 65,428 | 103,225 | 168,653 |
| Iringa, Liwale | 45,205 | 135 | 45,340 | 5,618 | 1,059 | 6,677 |
| Minjingu | - | - | - | - | - | - |
| **South Africa** | | | | | | |
| Phosco | 157,588 | 69,120 | 226,708 | - | - | - |
| **Canada** | | | | | | |
| Girard | 138,381 | 18,139 | 156,520 | 12,855 | 59,444 | 72,299 |
| Lac Yvonne | 572 | 14,439 | 15,011 | 468 | 3,710 | 4,178 |
| | 577,012 | 1,143,027 | 1,720,039 | 84,369 | 167,438 | 251,807 |

The acquisition costs included the issuance of cash and shares pursuant to the related agreements as fully outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year* and Note 6 to the consolidated financial statements for the year ended December 31, 2010. In Tanzania, acquisition costs consisted of the commitment under the JV agreement on the Wigu Hill project and annual licence fees. The exploration expenditures in Tanzania are mainly comprised of detailed geological mapping, trenching, costs associated with establishing the base camp, drill mobilization costs and road building to access and prepare drill target areas. In Quebec, the acquisition costs represent the issue of common shares to settle the remaining obligations for the Girard claim area and annual licence fees. The Quebec exploration expenditures relate to the magnetic surveys on the Girard and Lac Yvonne claim areas. Further detail is outlined above in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year.*

During the year ended December 31, 2010, the Company received government tax credits of $22,153 (cumulative amounts to December 31, 2010 $89,718) related to its properties in Quebec, Canada and these have been recorded as a recovery of exploration costs.

The Company’s operating expenses increased during the year ended December 31, 2010 compared to the year ended December 31, 2009 due to increased activity in the company with more exploration activity being undertaken. Significant changes in these expenses are outlined below.

**Accounting and administrative wages** increased to $64,784 for 2010 compared to $13,758 for the comparative 2009 year due to staff costs incurred by personnel in Africa as the Company’s exploration activity increased in Tanzania and South Africa, as well as administrative fees for newly-formed companies in BVI.

**Audit and tax fees** decreased from $61,832 for the year ended December 31, 2009 to $37,683 for the year ended December 31, 2010 due to the timing of payments in the prior year, as well as reductions in fees in the current year due to more financial resources available in the Company.

**Consulting fees** increased from $Nil to $29,230 due to more manpower resources required in the Company in the financial area to prepare the Company for its IPO filings, assistance with corporate restructuring, and increased activity in the Company's operations.

**Investor relations** expenses increased from $Nil to $41,557 for the year ended December 31, 2010 due to the hiring of a consultant and the preparation of promotional materials. These materials were distributed to existing shareholders and potential investors in preparation for Montero's IPO.

**Legal fees** increased from $56,495 for the year ended December 31, 2009 to $90,665 for the year ended December 31, 2010 due to legal requirements for property agreements, private placements and other corporate restructuring.

**Management fees** increased from $112,027 for the year ended December 31, 2009 to $203,351 for the year ended December 31, 2010 as more time was required to be spent on company activities by management, namely, the CFO and CEO.

**Office and general** costs increased from $12,129 for the year ended December 31, 2009 to $34,074 for the year ended December 31, 2010 due to the incorporation of two companies in the British Virgin Islands and increased company operations.

**Project investigation costs** of $60,117 were incurred primarily with respect of initial due diligence costs on the Phosco property prior to the execution of the binding term sheet, as well as mineralization research. The amounts in 2009 of $10,400 were for general project research.

**Rent and occupancy costs** of $22,649 were incurred in 2010 for office space in South Africa required due to the increase in the Company's operations.

**Stock-based compensation** is $167,109 for the year ended December 31, 2010 compared to $Nil for the prior comparative year due to stock options being granted during 2010 whereas none were granted in 2009.

**Travel and accommodation** costs increased from $33,999 for 2009 to $116,858 for 2010 due to an increase in the company's activities in regards to exploration projects as well as IPO-related travel costs being incurred.

The company realized a **gain on sale of subsidiary** of $19,638, when they received consent from the Ministry of Energy and Mines of Tanzania and completed a sale of its subsidiary, Montero Tanzania, to Minjingu Trust Limited ("Minjingu Trust"), a company which has a director in common with Montero, for proceeds of $1, resulting in a gain on disposition of $19,638. The only asset involved in this sale was the revoked licence comprising the Minjingu licence area, which was previously impaired by the Company to a book value of $1.

Montero reviews its properties regularly for impairment and recorded an **impairment loss** of $26,085 on a licence in Liwale in 2010, compared to $65,518 on a licence in Iringa in 2009.

**The Company's net loss** for the year ended December 31, 2010 was $932,862, $0.03 per share, compared with a net loss of $390,410, $0.03 per share for the year ended December 31, 2009.

Montero's **cash and cash equivalents** amounted to $1,526,902 at December 31, 2010 compared to $936,950 at December 31, 2009. Working capital was $1,217,226 at December 31, 2010 compared to $805,751 at December 31, 2009. Subsequent to December 31, 2010, Montero completed a $4,000,000 financing in conjunction with the successful completion of its IPO. These funds will be used to fund its exploration programs, for operations and for general working capital purposes and the Company will require further funds in the future since it currently has no revenue sources. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

**Commitments and Contingencies**

The Company has no commitments for operating lease rentals. The Company has commitments for share issuances, cash payments and exploration expenditure commitments related to its mineral properties pursuant to the acquisition agreements. These details are outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year* and Note 6 to the consolidated financial statements for the year ended December 31, 2010.

The Company has no contingencies.

**Segmented Information**

All of the Company's operations are in the mineral properties exploration industry with its principal business activity in the acquisition and exploration of mineral properties. The Company conducts its resource properties exploration activities primarily in Canada, Tanzania and South Africa. The location of the Company's assets by geographic area as of December 31, 2010 and 2009 is as follows:

| | **2010** | **2009** |
|---|---|---|
| | **$** | **$** |
| Canada | 2,960,151 | 1,986,790 |
| Tanzania | 2,102,401 | 760,444 |
| South Africa | 226,708 | — |
| BVI | 6,500 | — |
| | 5,295,760 | 2,747,234 |

## 1.5 SUMMARY OF QUARTERLY RESULTS

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Legal, audit, tax fees | 37,792 | 17,141 | 42,738 | 30,677 | 62,757 | 24,141 | 3,514 | 27,915 |
| Mgt fees | 52,001 | 50,626 | 49,763 | 50,961 | 49,496 | 14,500 | 31,584 | 16,447 |
| Stk based comp | - | - | 42,324 | 124,785 | - | - | - | - |
| Other cash expenses | 94,089 | 101,333 | 114,725 | 107,588 | 60,982 | 11,997 | 5,154 | 16,762 |
| Impairment of mineral pties | 26,085 | - | - | - | - | - | 65,518 | - |
| Other non-cash expenses | 12,236 | - | - | (19,638) | - | - | - | - |
| Interest income/other | (1,181) | (293) | (230) | (660) | (284) | (1) | - | (72) |
| **Net loss** | $ (221,022) | $ (168,807) | $ (249,320) | $ (293,713) | $ (172,951) | $ (50,637) | $ (105,770) | $ (61,052) |
| **Loss per share** | | | | | | | | |
| **Basic & diluted** | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) |
| **Mineral properties** | $ 3,469,486 | $ 3,151,424 | $ 2,843,892 | $ 2,057,937 | $ 1,775,533 | $ 1,632,491 | $ 1,602,346 | $ 1,608,919 |
| **Total assets** | $ 5,295,760 | $ 3,518,209 | $ 3,548,646 | $ 2,703,571 | $ 2,747,234 | $ 1,693,277 | $ 1,667,478 | $ 1,733,257 |
| **Total liabilities** | $ 382,824 | $ 417,308 | $ 278,938 | $ 174,367 | $ 136,859 | $ 175,740 | $ 273,238 | $ 233,247 |
| **Shareholders' equity** | $ 4,912,936 | $ 3,100,901 | $ 3,269,708 | $ 2,529,204 | $ 2,610,375 | $ 1,517,537 | $ 1,394,240 | $ 1,500,010 |

Note: Loss per share amounts disclosed above on a quarterly basis may not necessarily equal the cumulative amounts disclosed in the Company's annual financial statements, due to the timing of changes in the weighted average number of shares throughout the year versus the weighted average number of shares throughout the quarter.

The above quarterly information is prepared in accordance with generally accepted accounting principles. Generally, the expenditures have increased in 2010 due to increased exploration and administrative activity in the Company and preparations for the Company's IPO filing. Legal, audit and tax fees are required due to annual audits, tax advice, assistance with private placements and preparation of legal documents and the timing of these expenditures is dependent upon the timing of the private placement, execution of legal documents, etc., which is reflected in the above quarterly amounts. Management fees represents costs for management remuneration and fluctuate from quarter to quarter depending on the time they spend on Montero. These costs are higher in 2010 than 2009 as there is more activity in the Company in 2010. Stock-based compensation is charged to operations as the stock options vest and is dependent upon the timing of the granting of the stock options. Other cash expenses are higher in 2010 and Q4 of 2009 primarily due to costs incurred for preparation of the Company for its IPO. Mineral properties are reviewed for impairment on a periodic basis and any impairment write-downs are recorded when circumstances indicate that the carrying value of the mineral property may not be recoverable, which occurred in Q2 2009 when the Company wrote off one of its Iringa licences and Q4 2010 when a licence in Liwale was written off. The Company sold one of its subsidiaries in Q1 2010 and realized a gain on this sale of $19,638.

### 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $1,526,902 as at December 31, 2010 compared to $936,950 as at December 31, 2009. The Company reported working capital of $1,217,226 at December 31, 2010 compared to $805,751 at December 31, 2009.

The Company used cash of $461,198 in its operations for the year ended December 31, 2010 compared to using cash of $183,617 for the year ended December 31, 2009. The Company generated cash of $2,679,486 from its financing activities for the year ended December 31, 2010 compared to $1,257,243 for comparative year in 2009, primarily due to cash raised from share issues, net of financing costs. Montero spent $1,628,336 on investing activities on mineral property expenditures and the acquisition of equipment for the year ended December 31, 2010 compared to spending cash of $251,807 on its investing activities related to mineral property expenditures for the comparative year in 2009.

The Company has no commitments for operating lease rentals. The Company has commitments for share issuances, cash payments and exploration expenditure commitments related to its mineral properties pursuant to the acquisition agreements. These details are outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year* and Note 6 to the consolidated financial statements for the year ended December 31, 2010.

The Company is dependent upon its ability to raise additional funds to support its operations and it does require additional financing since it is an exploration stage company with no current sources of revenue. Funding options available to the Company are outlined below.

Montero is a publicly traded corporation listed on the TSX Venture Exchange (see details below) and plans to utilize the public market when practicable to raise the additional funds it requires, either through brokered or non-brokered private placements.

The Company issues shares where possible for mineral property acquisitions as well as for debt settlements when practicable as noted above. In addition, the Company negotiates favourable funding terms for its mineral property payments where possible and amends the agreements, if required, to coincide with the Company's cash funds available. Montero works with other joint venture partners in exploring for its mineral properties to share the costs and risks in exploring them.

The Company grants stock options to promote the profitability and growth of the Company by facilitating the efforts to attract and retain its directors, officers and consultants.

During the year ended December 31, 2010, the Company settled debts totalling $143,237 by issuing 1,112,389 common shares. In addition, the Company completed two private placements by issuing 7,450,000 common shares for cash proceeds of $2,912,500.

On February 10, 2011, the Company successfully closed its IPO through the issuance of 8,000,000 Units at $0.50 per Unit raising gross proceeds of $4,000,000. Each Unit consists of one common share in the Company and one half of one common share purchase warrant, each whole warrant exercisable into one common share at $0.70 per share until February 10, 2013. Agent's commission included a commission of 7.0% of the gross proceeds raised which amounted to $280,000, and $25,000 as a corporate finance fee. These costs, along with other offering costs, totaled approximately $345,000 netting the Company approximately $3,655,000 of cash which will be used to fund the Company's exploration programs and for general working capital purposes. The Agent was also granted Agent Warrants equal to 7.0% of the number of Units sold for a total of 560,000 Agent Warrants. Each Agent Warrant entitles the holder to purchase one Unit at $0.50 per Unit until February 10, 2013, each Unit consisting of one common share and one half of one common share purchase warrant, each whole warrant exercisable into one common share at $0.70 per share until February 10, 2013.

On February 10, 2011, the Company granted 1,475,000 stock options to directors, officers and consultants of the Company which are exercisable at $0.50 per share until February 10, 2016.

## 1.8 OFF-BALANCE SHEET ARRANGEMENTS

Montero does not utilize off-balance sheet arrangements.

## 1.9 TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 2010 and 2009, the Company incurred the following transactions with directors, officers or companies in which the directors have significant influence and interests:

| | **2010** | **2009** |
|---|---|---|
| | **$** | **$** |
| Geological consulting fees and other (exploration expenditures) | 450,334 | 66,738 |
| Accounting and administrative wages | 39,045 | 13,443 |
| Directors' fees | 18,242 | 15,209 |
| Investor relations | 31,489 | — |
| Management fees | 203,351 | 112,027 |
| Project investigation costs | 41,475 | 10,400 |
| Rent and occupancy costs | 22,649 | — |

The amounts due to related parties at December 31, 2010 of $181,248 (2009 - $33,448) represents amounts due to directors and officers or companies in which the directors have significant influence and interests for management fees and reimbursement of costs. These amounts are unsecured, non-interest bearing and due on demand.

These transactions were in the normal course of business and were measured at the exchange amount, which is the amount established and agreed to by the related parties.

## 1.10 FOURTH QUARTER

Please see 1.4 SUMMARY OF QUARTERLY RESULTS for information on the fourth quarter of 2010.

## 1.11 PROPOSED TRANSACTIONS

None

## 1.12 CRITICAL ACCOUNTING ESTIMATES

Not applicable as the Company is a venture issuer.

## 1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### Changes in accounting policies

None.

### Initial adoption of accounting policies

The Company did not adopt any new accounting policies during the period.

### New Accounting Standards

a) In February 2008, the CICA Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (i.e., IFRS will replace Canadian generally accepted accounting principles for public companies). The official changeover date will apply for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. The Company became a public company subsequent to the year-end and therefore will be adopting these requirements for its fiscal year beginning January 1, 2011. The Company has determined that the key elements of this IFRS changeover on the Company will be in the areas of accounting for deferred financing costs, accounting for income taxes, determination of functional currencies within the consolidated group and general IFRS disclosure requirements. The Company is in the process of finalizing the specific impact on the Company's financial reporting.

b) In January, 2009, the CICA issued Section 1582, "Business Combinations" which will provide the Canadian equivalent to IFRS 3, "Business Combinations" and will replace the existing Section 1581, "Business Combinations". The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year in which case an entity would also be required to early adopt Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests". Management does not expect that the adoption of these new standards will have a significant impact on the Company's financial statements.

Other pronouncements issued with future effective dates are either not applicable or are not expected to be significant to the financial statements of the Company.

## 1.14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, INCLUDING MANAGEMENT OF CAPITAL

*Financial Instruments*

The Company follows Canadian Institute of Chartered Accountants ("CICA") Sections 3855, "Financial Instruments – Recognition and Measurement" and Section 3856, "Hedges". Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial assets and liabilities (including derivatives), are to be measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and amounts due to related parties. The carrying values of these financial instruments approximate their fair value. Cash and cash equivalents and deposits are measured at face value, representing fair value, and are classified as held-for-trading. Accounts receivable, which are measured at amortized cost, are designated as loans and receivables. Accounts payable and amounts due to related parties, which are measured at amortized cost, are designated as other financial liabilities.

The Company does not use any hedging instruments.

*Management of Capital*

The Company manages its capital to ensure that it will be able to continue as a going concern, while maximizing the return to stakeholders through the optimization of the issuance of equity instruments. The capital of the Company consists of equity attributable to common shareholders comprised of share capital and stock options.

In order to facilitate the management of capital and exploration of its mineral properties, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. The Company also focuses its efforts in the areas that are the most geologically attractive. The Company may issue new equity for cash, to acquire mineral properties or to settle indebtedness, as best determined by management. Management may decide to option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements to share the exploration risk or dispose of mineral properties. The Company's investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity. In order to maximize ongoing exploration efforts, the Company does not pay dividends. The Company was successful in completing its IPO subsequent to year-end, and expects to raise funds as required from public markets to meet its capital management objectives.

The Company's overall strategy remains unchanged from the prior period. The Company is not subject to any externally imposed capital requirements.

*Risk Management*
Industry Risk: The Company is engaged primarily in the mineral exploration field. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements, however environmental laws and practices are complex and there is no certainty that all exposure to liability or costs have been mitigated.

Credit Risk: Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash and cash equivalents. This risk relating to cash is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies.

Currency Risk: Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada and Tanzania and portions of its expenditures are incurred in US dollars and Tanzanian Shillings. Due to the uncertainty and relative devaluation of the local currency in Tanzania, most significant transactions are conducted in US dollars. Consequently, the Company is primarily exposed to changes in the Canadian dollar (CAD) compared to the United States dollar (USD). A significant fluctuation in the exchange rate of the USD compared to the CAD could have an effect on the Company's results of operations, financial position or cash flows. The Company does not engage in any hedging activities to reduce its foreign currency risk, but does manage the currency of its cash resources to complement the denomination of the expenditures required.

The Company is exposed to currency risk through the following CAD equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars, i.e., the USD:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Cash and cash equivalents | 25,863 | 16,794 |
| Prepaid expenses and deposits | 1,092 | - |
| Accounts payable and accrued liabilities | (130,193) | (59,820) |
| | **(103,238)** | **(43,026)** |

Based on the above net exposures at December 31, 2010, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a $10,324 (2009 – $4,303) increase or decrease in the Company's net loss.

Interest Rate Risk: Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's is exposed to interest rate risk on its cash equivalents as these accrue interest at variable rates.

Liquidity and Funding Risk: Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as significant.

## 1.15 OTHER MD&A REQUIREMENTS

### DISCLOSURES FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The information required on the Company's mineral properties' capitalized acquisition costs and exploration expenditures are readily available from the Company's consolidated financial statements for the year ended December 31, 2010 and for the year ended December 31, 2009 and therefore are not required to be repeated here.

### DISCLOSURE OF OUTSTANDING SHARE DATA

The information on the Company's share capital including numbers of shares outstanding, details of any conversion features, number of shares issuable on conversion of stock options and warrants, etc. are detailed in the Company's consolidated financial statements for the year ended December 31, 2010. The number of common shares outstanding as of the date of this report on April 20, 2011 is 42,315,730 shares.