MONTERO MINING AND EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011
Expressed in Canadian Dollars

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Montero Mining and Exploration Ltd.

We have audited the accompanying consolidated financial statements of Montero Mining and Exploration Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montero Mining and Exploration Ltd. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Montero Mining and Exploration Ltd.'s ability to continue as a going concern.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 25, 2013

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

	Notes	December 31, 2012	December 31, 2011
ASSETS		**$**	**$**
Current assets			
Cash and cash equivalents	5	498,872	3,249,762
Trade and other receivables	6	8,754	16,840
Prepaid expenses and deposits		37,966	121,625
Held for sale assets	7	1,532,077	-
Total current assets		2,077,669	3,388,227
Non-current assets			
Reclamation bonds		-	32,010
Plant and equipment	8	99,809	122,431
Exploration and evaluation assets	9	8,729,396	10,125,666
Total non-current assets		8,829,205	10,280,107
TOTAL ASSETS		**10,906,874**	**13,668,334**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	10,17	1,576,623	1,071,596
Total current liabilities		1,576,623	1,071,596
SHAREHOLDERS' EQUITY			
Equity attributable to the owners of the Company			
Share capital	11	12,502,753	12,511,041
Obligation to issue shares	11	404,666	-
Warrant reserve	12	4,162,952	4,559,975
Share-based payment reserve	13	2,112,466	1,715,443
Foreign currency reserve		(236,713)	57,881
Accumulated deficit		(9,615,873)	(6,247,602)
Total shareholders' equity		9,330,251	12,596,738
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,906,874**	**13,668,334**

On behalf of the Board:

"Antony Harwood" — Antony Harwood, Director

"Antonia J Chapman" — Antonia J Chapman, Director

See accompanying notes to the consolidated financial statements

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

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
		$	$
EXPENSES			
Consulting, directors', administrative and management fees	17	791,960	820,564
Depreciation	8	41,287	17,676
General and administrative	17	81,944	167,319
Impairment of exploration and evaluation assets	9	1,942,364	-
Other expenses		103,781	193,938
Professional fees		129,241	280,715
Project investigation costs	17	11,281	136,029
Shareholder and regulatory	17	268,608	368,539
Stock-based compensation	11	-	1,243,162
OPERATING LOSS		(3,370,466)	(3,227,942)
OTHER ITEMS			
Foreign exchange loss		(8,931)	(17,861)
Interest income		11,126	41,611
		2,195	23,750
NET LOSS		**(3,368,271)**	**(3,204,192)**
OTHER COMPREHENSIVE INCOME (LOSS)			
Exchange difference on translating foreign operations		(294,594)	137,416
COMPREHENSIVE LOSS		**(3,662,865)**	**(3,066,776)**
LOSS PER SHARE – BASIC AND DILUTED	15	$ (0.06)	$ (0.07)

See accompanying notes to the consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Note	Share Capital		Warrant Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Other Components of Equity	Accumulated Deficit	TOTAL EQUITY
		Number of Shares	$	$	$	$	$	$	$
Balance, December 31, 2010		**34,315,730**	**6,867,365**	**397,023**	**472,281**	**(79,535)**	—	**(3,043,410)**	**4,613,724**
Shares issued for:									
Cash	11	17,871,333	9,900,300	—	—	—	—	—	**9,900,300**
Share issue costs	11	—	(1,578,788)	735,116	—	—	—	—	**(843,672)**
Fair value of warrants issued	11	—	(3,427,836)	3,427,836	—	—	—	—	**—**
Acquisition of subsidiary	9	2,500,000	750,000	—	—	—	—	—	**750,000**
Stock-based compensation	11	—	—	—	1,243,162	—	—	—	**1,243,162**
Net loss and comprehensive loss		—	—	—	—	137,416	—	(3,204,192)	**(3,066,776)**
Balance, December 31, 2011		**54,687,063**	**12,511,041**	**4,559,975**	**1,715,443**	**57,881**	**—**	**(6,247,602)**	**12,596,738**
Obligation to issue shares	11	—	—	—	—	—	404,666	—	**404,666**
Share issue costs	11	—	(8,288)	—	—	—	—	—	**(8,288)**
Transfer fair value of expired warrants		—	—	(397,023)	397,023	—	—	—	**—**
Net loss and comprehensive loss		—	—	—	—	(294,594)	—	(3,368,271)	**(3,662,865)**
Balance, December 31, 2012		**54,687,063**	**12,502,753**	**4,162,952**	**2,112,466**	**(236,713)**	**404,666**	**(9,615,873)**	**9,330,251**

See accompanying notes to the consolidated financial statements

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

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(3,368,271)	(3,204,192)
Adjustments to loss for non-cash items:		
Depreciation	41,287	17,676
Stock-based compensation	-	1,243,162
Impairment of exploration and evaluation assets	1,942,364	-
Net changes in non-cash working capital items:		
Trade and other receivables	8,086	15,000
Prepaid expenses and deposits	83,659	(80,317)
Trade and other payables	505,027	665,847
Net cash flows used in operating activities	(787,848)	(1,342,824)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received on acquisition of subsidiary	-	898
Expenditures on plant and equipment	(20,826)	(103,886)
Expenditures on exploration and evaluation assets	(2,332,896)	(5,857,052)
Net cash flows used in investing activities	(2,353,722)	(5,960,040)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	9,900,300
Share subscriptions received	404,666	-
Share issue costs	(8,288)	(843,672)
Net cash flows from financing activities	396,378	9,056,628
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,745,192)	1,753,764
Effect of exchange rates on cash holdings in foreign currencies	(5,698)	(30,904)
CASH AND CASH EQUIVALENTS, BEGINNING	3,249,762	1,526,902
CASH AND CASH EQUIVALENTS, ENDING	498,872	3,249,762

See accompanying notes to the consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Montero Mining and Exploration Ltd ("Montero") was incorporated on October 5, 2006, under the laws of British Columbia, Canada. Montero and its subsidiaries (collectively, the "Company") are engaged in the acquisition and exploration of mineral properties in Tanzania, South Africa and Canada.

Montero is a publicly listed company with its shares listed on the TSX Venture Exchange ("TSX-V"). The Company's registered office is located at 1040 West Georgia Street, Suite 1900, Vancouver, BC, V6E 4H3 and its head office is located at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6.

Going Concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2012 the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions give rise to significant doubt about the Company's ability to continue as a going concern. However, management believes it has sufficient cash resources on hand to finance operating costs and exploration activities over the next twelve months. If further funds are required, they will be financed through a private placement of common shares or the divestiture of non-strategic assets (Note 22).

2. STATEMENT OF COMPLIANCE

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

The consolidated financial statements were authorized for issue on April 25, 2013 by the directors of the Company.

3. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars ("CAD"), unless otherwise indicated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements include the accounts of Montero, the parent company, and its controlled subsidiaries, after the elimination of all intercompany balances and transactions. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceased. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

a) Basis of consolidation – *Continued*

The Company's controlled subsidiaries included in these consolidated financial statements are:

Name	Country of Incorporation	Ownership
Montero Resource Holding Limited	British Virgin Islands	100%
Wigu Hill (BVI) Limited	British Virgin Islands	100%
Lumba (BVI) Limited	British Virgin Islands	100%
Montero Projects Limited	British Virgin Islands	100%
Montero Wigu Hill (Tanzania) Limited	Tanzania	100%
Montero Resources Limited	Tanzania	100%
Lumba Exploration Limited	Tanzania	100%
Wigu Hill Mining Company Limited	Tanzania	82.25%
Lumba Mining Company Limited	Tanzania	82.25%
Eurozone Investments Limited	British Virgin Islands	100%

b) Significant accounting judgements, estimates and assumptions

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

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

ii) Acquisitions
The Company must use judgement and make estimates to determine the allocation of the purchase consideration based on the fair market value of the assets and liabilities acquired.

iii) Other judgments
Other key areas where the Company is required to make judgements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty, whether an acquisition constitutes a business combination or an acquisition of assets and the determination of the functional currency of the parent company and its subsidiaries.

iv) Other estimates and assumptions
Other key areas where the Company is required to make estimates and assumptions are the useful lives of plant and equipment, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for asset retirement obligations and contingent liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

c) Exploration and evaluation assets

The Company records and carries its interest in exploration and evaluation assets at cost. These capitalized costs include the direct costs of acquisition, exploration and the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. Government tax credits received are recorded as a reduction of the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment when the facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

The Company's criterion for testing impairment includes, but is not limited to, when:

i) Exploration rights for a specific area expired or are expected to expire in the near future and these rights are not expected to be renewed;
ii) Substantive expenditures on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
iii) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and / or
iv) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

When an impairment test is performed and, as a result of this test, it is determined that the carrying amount of an exploration and evaluation asset exceeds its recoverable amount, a provision is made for the decline in value and charged against operations in the year.

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

d) Farm outs

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized.

e) Joint ventures

From time to time, the Company enters into agreements that provide for specified percentage interests in mineral property rights to be allocated to joint venture participants in exchange for funding or joint funding of exploration programs. As such, these agreements represent jointly controlled assets, which are recognized in the Company's financial statements. The Company recognizes in its financial statements its share of the jointly controlled assets, any liabilities incurred directly by the Company on these assets and its share of liabilities incurred jointly with the other venture partners in relation to the jointly controlled assets. The Company also recognizes its share of any expenses incurred by the joint venture as well as expenses incurred directly by the Company in respect of the joint venture assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

e) Joint ventures – *Continued*

In addition, the Company may participate in ownership of a jointly controlled entity, which is a corporation, partnership or other entity in which each venturer holds an interest. A jointly controlled entity operates in the same way as other entities, except that a contractual arrangement established joint control. A jointly controlled entity controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the equity method.

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the joint venture. Any goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive loss reflects the Company's share of the results of operations of the joint venture. Where there has been a charge recognized directly in the equity of the joint venture, the Company recognizes its share of the charge directly in the statement of changes in shareholders' equity. As at December 31, 2012, the Company does not have any investments in jointly controlled entities.

f) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Depreciation is provided at rates calculated to write off the cost of the asset over their estimated useful lives. Depreciation is calculated on a declining balance basis on its assets at the following rates: field equipment and vehicles at 30% per annum and furniture and fixtures at 20% per annum.

g) Asset retirement and environmental obligations

The fair value of a liability for an asset retirement or environmental obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement or environmental obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement or environmental cost is charged to operations using a systematic and rational method and the resulting liability is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As of December 31, 2012, the Company does not have any asset retirement or environmental obligations.

h) Impairment of assets

The carrying amount of the Company's assets (which include exploration and evaluation assets and plant and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

i) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term highly liquid interest bearing investments that are readily convertible into cash with a remaining term to maturity of 90 days or less when acquired.

j) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is credited to the share-based payment reserve. The fair value of options is determined using the *Black-Scholes Option Pricing Model*. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted, shall be based on the number of equity instruments that eventually vest.

k) Income taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

l) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent company, Montero, is the Canadian dollar, the functional currency of the Company's subsidiaries located in Tanzania and BVI is the United States dollar, and the functional currency of its subsidiary located in South Africa is the South African Rand. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

l) Foreign currency translation – *Continued*

On initial recognition, foreign currency transactions are translated into the functional currency at the exchange rate in effect at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency, are translated using the exchange rate at the date of the transaction, whereas non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognized in the statement of comprehensive loss in the period in which they arise. When a gain or loss on non-monetary items is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the statement of comprehensive loss, any exchange component of that gain or loss is recognized in also recognized in the statement of comprehensive loss.

At the end of each reporting period, the subsidiaries translate their results and financial position into the presentation currency of the Company which is the Canadian dollar. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial period end. Income and expenses for each statement of comprehensive loss are translated at the average exchange rates. Equity transactions are translated using the exchange rate at the date of the transaction. All resulting exchange differences are recognized in the Company's foreign currency translation reserve in other comprehensive income. These exchange differences are recognized in the statement of loss in the period in which the operation is disposed.

m) Loss per share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

n) Financial instruments

Initial recognition and measurement

Financial assets and liabilities are initially recognized at fair value. Financial assets are classified at initial recognition as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Company does not use any hedging instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1—unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2—inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3—inputs that are not based on observable market data.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. Financial assets at fair value through profit or loss includes financial assets held-for-trading which represent assets that are acquired for the purpose of selling or repurchasing in the near term. These financial assets are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

n) Financial instruments – *Continued*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss. The Company classifies cash and cash equivalents, trade receivables, deposits and reclamation bonds as loans and receivables.

Held-to-maturity investments represent assets to be held until a specific time period and are initially measured at fair value, including transaction costs. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss. The Company does not have any financial assets classified as held-to-maturity investments.

Available-for-sale financial assets are investments in equity instruments that are measured at fair value with gains and losses, net of applicable taxes, included in other comprehensive income until the asset is removed from the statement of financial position. Once this occurs, the resultant gains or losses are recognized in comprehensive loss. Any permanent impairment of available-for-sale financial assets is also included in the statement of comprehensive loss. The Company does not have any financial assets classified as available-for-sale.

Financial liabilities are initially recorded at fair value and are designated as fair value through profit or loss or other financial liabilities. Derivative financial liabilities are classified as fair value through profit or loss and are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss. Non-derivative financial liabilities are recorded at amortized cost using the effective interest rate method. Any amortization of the effective interest rate method is recognized in finance cost in the statement of comprehensive loss. The Company's non-derivative financial liabilities consist of trade and other payables.

Financial assets, others than those at fair value through profit and loss are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The amount of impairment loss is recognized in the statement of comprehensive loss. Any subsequent reversals of impairment are also recognized in the statement of comprehensive loss, except for those related to available-for-sale financial assets.

o) Accounting standards and interpretations issued but not yet effective

Certain accounting standards and interpretations are issued but which are yet required to be adopted as follows:

New standard IFRS 9 "Financial Instruments"

In November 2009, the IASB issued IFRS 9 which will replace International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2015.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

o) Accounting standards and interpretations issued but not yet effective – *Continued*

New standards IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities"

In May 2011, the IASB issued IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors return. IFRS 10 sets out the requirements on how to apply the control principle. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 10 and IFRS 12 supersede IAS 27 "Consolidated and Separate Financial Statements" and Standing Issues Committee ("SIC") 12 "Consolidation – Special Purpose Entities".

IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 "Joint Arrangements"

In May 2011, the IASB issued IFRS 11 "Joint Arrangements", which provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is an arrangement where the jointly controlling parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method. Proportionate consolidation is no longer permitted.

This standard is effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 13 "Fair Value Measurement"

In May 2011, the IASB issued IFRS 13 "Fair Value Measurement". This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application.

Interpretation 20—Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued an Interpretation clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how the assets should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"

These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

o) Accounting standards and interpretations issued but not yet effective – *Continued*

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

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

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

5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	December 31, 2012	December 31, 2011
	$	$
Cash held at banks	414,412	232,498
Guaranteed investment certificates	84,460	3,017,264
	498,872	**3,249,762**

Cash held at banks earns no interest. The cash held in guaranteed investment certificates are generally invested for varying short-term periods of less than 90 days depending on the immediate cash requirements of the Company, and earn interest at short-term deposit rates.

6. TRADE AND OTHER RECEIVABLES

The Company had no trade receivables as at December 31, 2012 or December 31, 2011. Other receivables comprise amounts due from local governments for reimbursement of amounts related to local sales taxes. These amounts are non-interest bearing and are due within twelve months.

7. HELD FOR SALE ASSETS

On October 18, 2010, the Company's subsidiary, Montero Projects Limited ("Montero Projects") entered into a binding term sheet agreement with Celtic Trust Company Limited ("Celtic"), whereby Montero Projects had the exclusive right to acquire the shares in Celtic's subsidiary (Eurozone Investments Limited, hereafter "Eurozone") which hold interests in subsidiary companies that hold 4 phosphate exploration projects in South Africa ("Phosco"). Montero Projects paid an advance of $101,700 (USD $100,000) to be granted an exclusivity period, which expired on July 18, 2011, to complete due diligence on the Phosco assets. An amendment to the binding term sheet agreement was executed on November 18, 2011 (the "Effective Date"), whereby Montero Projects agreed to acquire the shares in Eurozone by issuing 2,500,000 common shares of Montero. Concurrently, the due diligence was completed, approval was received from the TSX-V and the Company issued the 2,500,000 common shares to complete the acquisition of Eurozone.

(Expressed in Canadian dollars)

7. HELD FOR SALE ASSETS – *Continued*

An additional 1,000,000 common shares of Montero may be issued as consideration if a mining industry compliant report ('the "Report") is obtained, indicating a phosphate inferred resource on certain prospecting rights of one of the Phosco assets (the "Bierkraal Project"). The Company has 18 months from the Effective Date to conduct an exploration program on the Bierkraal Project and, if at the end of this period, the Company has not obtained the Report or given notice to Celtic that they intend to obtain the Report, the Company shall offer to transfer back the shares of the subsidiary that holds the Bierkraal Project to Celtic for no consideration.

The fair value of the assets received could not be estimated reliably, so the amounts were calculated using the fair value of the instruments granted in accordance with IFRS 2, *Share-based Payment*. The fair value of the common shares was calculated using the trading stock price of Montero, which resulted in the fair value of the shares being valued at $750,000, representing the total consideration paid for Phosco. The transaction did not constitute a business combination as Eurozone did not meet the definition of a business under IFRS 3 *Business Combinations* and therefore was originally accounted for as an acquisition of a group of exploration and evaluation assets and other related assets and liabilities.

The Company has now determined that it would be appropriate to sell its Phosco assets. On March 22, 2012 the Company engaged AltaCorp Capital Inc. ("Advisor") to assist them in completing a sale. The agreement with the Advisor provides for a payment of a success fee to the Advisor of 4% of the transaction value subject to a minimum success fee of $250,000 if the Phosco assets are sold within six months of the expiry of the agreement to a buyer specifically introduced to the Company by the Advisor. The original agreement with the Advisor was in effect until the earlier of i) the date which is three months from the date of the agreement and ii) the date the Phosco assets are sold. Both parties have agreed that the expiry of the agreement be extended such that the agreement with the Advisor is in effect until the earlier of i) the date which is nine months from the date of the agreement (i.e., December 22, 2012) and ii) the date the Phosco assets are sold. Accordingly, the above-noted success fee is payable upon a sale of the Phosco assets to a buyer specifically introduced to the Company by the Advisor completed on or before June 22, 2013. It is not presently known when or in what specific manner the Phosco assets may be sold. Although management is committed and expects to sell the Phosco assets within a year, there can be no assurances that a sale will take place and the timing of such a sale is uncertain.

In accordance with IFRS, the Company has now presented the assets as *Held for Sale* assets which comprise the following:

	$
Reclamation bonds	29,798
Exploration and evaluation assets	1,502,279
Held for sale assets	**1,532,077**

(Expressed in Canadian dollars)

8. PLANT AND EQUIPMENT

	Field Equipment	Vehicles	Furniture and Fixtures	TOTAL
	$	$	$	$
Cost:				
Balance, December 31, 2010	60,362	-	-	60,362
Additions	70,396	29,606	3,884	103,886
Foreign exchange translation	280	1,181	178	1,639
Balance, December 31, 2011	131,038	30,787	4,062	165,887
Additions	11,327	-	9,499	20,826
Foreign exchange translation	(4,353)	2,304	(112)	(2,161)
Balance, December 31, 2012	138,012	33,091	13,449	184,552
Accumulated Depreciation:				
Balance, December 31, 2010	25,780	-	-	25,780
Additions	14,116	2,939	621	17,676
Balance, December 31, 2011	39,896	2,939	621	43,456
Additions	28,893	8,300	4,094	41,287
Balance, December 31, 2012	68,789	11,239	4,715	84,743
Net Book Value:				
At December 31, 2011	91,142	27,848	3,441	122,431
At December 31, 2012	**69,223**	**21,852**	**8,734**	**99,809**

9. EXPLORATION AND EVALUATION ASSETS

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

	December 31, 2012	December 31, 2011
	$	$
Tanzania		
Wigu Hill	8,565,210	6,631,442
Iringa	-	250,465
Liwale	-	382,992
South Africa		
Phosco	-	1,487,634
Canada		
Girard	164,186	1,291,476
Lac Yvonne	-	81,657
	8,729,396	**10,125,666**

9. EXPLORATION AND EVALUATION ASSETS – *Continued*

a) Tanzania

Wigu Hill Project

On May 26, 2008 (amended June 30, 2009 and April 27, 2010) the Company and RSR (Tanzania) Limited ("RSR") entered into an agreement whereby RSR granted the Company an exclusive option to earn an initial 60% interest in the Wigu Hill Project (the "First Option"), and an additional 10% interest in the Wigu Hill Project (the "Second Option"). The terms and conditions of the final amended agreement on April 27, 2010 are outlined as follows. In order to exercise the First Option, the Company must pay United States Dollars ("USD") $150,000 on or before April 30, 2010 (paid). After the exercise of the First Option, RSR will transfer the prospecting licences comprising the Wigu Hill Project (the "Wigu Hill Licences") to a newly-formed company (established and called - Wigu Hill Mining Company Limited "WHMC") and the Company will concurrently pay RSR a further USD $50,000 (paid). The Company is further obligated to incur exploration expenditures of USD $3.5 million (incurred) (or alternatively complete a prefeasibility study) on or before November 28, 2012. Once completed, the Company may at its sole discretion, within 60 days after November 28, 2012, elect to acquire a further 10% interest in the Wigu Hill Licences by paying RSR a further USD $2,000,000 to complete the requirements to execute the Second Option (amended as outlined below).

On September 22, 2011, the Company and RSR executed a Shareholders' Agreement, which outlines the following:

- amended the payment of USD $2,000,000 to an initial Second Option payment of $800,000 (paid) and a final Second Option payment of USD $700,000, which is to be paid subject to receipt of mining and retention licences granted by the Government of Tanzania, as well as a development agreement executed by the Government of Tanzania and the Company. By mutual agreement between the Company and RSR, the USD $700,000 payment may be satisfied by the issuance of common shares of Montero at the prevailing market price of such shares at the date of payment.
- agreement that the Company has now duly and validly exercised the First Option and the Second Option, and owns a 70% interest in the Wigu Hill Licences.
- RSR has transferred the Wigu Hill Licences to WHMC which was originally owned 70% by the Company and 30% by RSR. Further funding of exploration on the Wigu Hill Licences shall be provided by the Company and RSR in proportion to their ownership of WHMC.
- dilution provisions are provided subject to a deemed expenditure formula and, and where a party's interest is diluted to less than 10%, conversion of such interest to a 2.5% net smelter returns royalty ("NSR") will be done. The Company has the right to purchase all or part of the NSR for USD $1 million per each 0.5%.

After the establishment of WHMC, further exploration costs were incurred by the Company and RSR has not yet paid their share of these costs which at December 31, 2012 were determined to be $1,029,521 (USD $1,034,799) and have been included in exploration and evaluation assets. Management has not recorded RSR's share as a receivable due to the uncertainty of payment. RSR was put on notice for its contribution required and advised that dilution will occur if payment is not received. As of December 31, 2012, the notice period for receipt of payment has expired and Montero increased its ownership of the Wigu Hill Licences to 82.25%.

Iringa and Liwale Licence Areas

In 2007 the Company acquired certain claims from a Tanzanian company as follows: three licences in the Iringa area by the payment of USD $18,750 and the issuance of 600,000 common shares valued at $120,000; and four licences in the Liwale area by the payment of USD $25,000 and the issuance of 800,000 common shares valued at $160,000. During the year ended December 31, 2012, the Company decided not to pursue exploration in these licence areas and recorded an impairment of exploration and evaluation assets of $682,781.

9. EXPLORATION AND EVALUATION ASSETS – *Continued*

b) South Africa

Phosco Project

As outlined in Note 7, the Company completed the acquisition of Phosco on November 10, 2011 by issuing 2,500,000 common shares valued at $750,000 to acquire all of the shares of Eurozone which owns the 4 phosphate licences. Since the Company has now decided to sell these assets, they are presented as *Held for Sale* assets in accordance with IFRS.

c) Canada

Girard Claim Area

On April 25, 2007, the Company entered into an agreement to acquire a 100% interest in the Girard claims located in Quebec for consideration of 2,000,000 common shares (issued) valued at $625,000 and by incurring exploration expenditures totalling $640,000 over five years. Anniversary payments were also required which totaled $235,000, $100,000 which was paid in cash and the remaining $135,000 was settled by the issuance of 1,000,000 common shares valued at $135,000.

During the year ended December 31, 2012, the Company decided not to pursue exploration in certain areas of the Girard claim area and recorded an impairment of exploration and evaluation assets of $1,161,731.

Lac Yvonne Claim Area

On March 14, 2008, the Company entered into a purchase and sale agreement to acquire a 100% interest in the Lac Yvonne claims located in Quebec for consideration of 100,000 common shares (issued) valued at $35,000.

During the year ended December 31, 2012, the Company decided not to pursue exploration in this claim area and recorded an impairment of exploration and evaluation assets of $97,852.

(Expressed in Canadian dollars)

9. EXPLORATION AND EVALUATION ASSETS – *Continued*

	Tanzania			South Africa	Canada		Totals for	
	Wigu Hill	Iringa	Liwale	Phosco	Girard	Lac Yvonne	Year ended December 31, 2012	Year ended December 31, 2011
	$	$	$	$	$	$	$	$
Property acquisition costs								
Balance, beginning of year	1,167,915	160,059	242,840	882,534	909,946	37,408	**3,400,702**	1,763,370
Foreign currency translation	(26,086)	5,218	5,942	2,188	-	-	**(12,738)**	56,964
Additions	87,117	5,773	7,739	-	1,537	583	**102,749**	1,580,368
Impairment	-	(171,050)	(256,521)	-	(800,300)	(37,991)	**(1,265,862)**	-
Reclassification to Held for Sale assets	-	-	-	(884,722)	-	-	**(884,722)**	-
Balance, end of year	1,228,946	-	-	-	111,183	-	**1,340,129**	3,400,702
Exploration and evaluation costs								
Balance, beginning of year	5,463,527	90,406	140,152	605,100	381,530	44,249	**6,724,964**	1,598,546
Foreign currency translation	(150,199)	(2,234)	(6,223)	(10,572)	-	-	**(169,228)**	126,221
Costs incurred during the year:								
Drilling costs	-	-	-	-	-	-	**-**	1,773,595
Field and camp costs	386,154	85	3,964	320	1,787	1,980	**394,290**	427,542
Geochemical & metallurgical	206,947	1,815	256	911	5,609	-	**215,538**	377,020
Geological consulting	679,735	5,272	17,109	60,858	3,959	3,960	**770,893**	1,322,480
Geophysical and maps	16,353	-	-	-	6,653	659	**23,665**	46,033
Maintenance & environmental	123,315	-	-	4,689	5,363	7,128	**140,495**	294,069
Motor vehicle costs	81,568	-	499	1,393	-	-	**83,460**	171,395
Project administration costs	272,886	-	3,088	3	10,025	2,799	**288,801**	164,820
Refinery hydromet and testing	172,186	-	-	-	-	-	**172,186**	272,672
Travel and accommodation	83,792	534	487	1,079	-	-	**85,892**	150,623
	7,336,264	95,878	159,332	663,781	414,926	60,775	**8,730,956**	6,725,016
Exploration tax credits	-	-	-	-	(492)	(914)	**(1,406)**	(52)
Impairment	-	(95,878)	(159,332)	-	(361,431)	(59,861)	**(676,502)**	-
Reclassification to Held for Sale assets	-	-	-	(663,781)	-	-	**(663,781)**	-
	-	-	-	(663,781)	(361,923)	(60,775)	**(1,341,689)**	(52)
Balance, end of year	7,336,264	-	-	-	53,003	-	**7,389,267**	6,724,964
Total	**8,565,210**	**-**	**-**	**-**	**164,186**	**-**	**8,729,396**	10,125,666

(Expressed in Canadian dollars)

10. TRADE AND OTHER PAYABLES

The components of trade and other payables is as follows:

	December 31, 2012	December 31, 2011
	$	$
Trade payables	524,125	777,799
Amounts due to related parties (Note 17)	971,103	221,426
Accrued liabilities	81,395	72,371
	1,576,623	**1,071,596**

These amounts are non-interest bearing and are normally settled within 90 day terms, with all amounts due within twelve months. As outlined in Note 22 (a), certain of these amounts totalling $643,077 were settled by the issuance of common shares subsequent to the reporting period.

11. SHARE CAPITAL

Authorized
Unlimited number of common shares without par value.

Issued and outstanding
At December 31, 2012 there were 54,687,063 issued and fully paid common shares outstanding (December 31, 2011 – 54,687,063).

Details of changes to share capital

i) On February 10, 2011, the Company successfully closed its Initial Public Offering ("IPO") through the issuance of 8,000,000 Units at $0.50 per Unit raising gross cash 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 $422,900, of which $32,500 were incurred during the year ended December 31, 2010, with the balance of $390,400 being incurred during the year ended December 31, 2011. 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.

   The Company has valued the warrants and the Agent Warrants issued in connection with its IPO using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.87%; volatility 173%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of $1,488,423 attributable to the warrants has been reclassified from share capital and charged to warrant reserve. The resultant value of $323,395 attributable to the Agent Warrants has been charged to share issue costs and warrant reserve.

ii) On April 25, 2011, 50,000 stock options were exercised for proceeds of $7,500.

11. SHARE CAPITAL – *Continued*

Details of changes to share capital – *Continued*

iii) On August 3, 2011, the Company completed a private placement financing by issuing 9,821,333 Units at $0.60 per Unit for gross cash proceeds of $5,892,800. Each Unit comprises one share and one half of a warrant, with each whole warrant entitling the holder thereof to purchase one additional share at a price of $0.80 per share until August 3, 2013. In addition, 666,493 warrants were issued to eligible finders, each such warrant entitling the holder to acquire one Unit (as described above) for $0.60 until August 3, 2013. Share issue costs and finders' fees of 7% paid to eligible finders for this financing amounted to $453,272.

The Company has valued the warrants issued in connection with this private placement using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.25%; volatility 150%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of $1,939,413 attributable to the warrants has been reclassified from share capital and charged to warrant reserve. The resultant value of $411,721 attributable to the warrants issued to eligible finders has been charged to share issue costs and warrant reserve.

iv) On November 10, 2011, the Company issued 2,500,000 common shares to acquire all of the shares of Phosco as outlined in Note 7.

Obligation to issue shares

As outlined in Note 22 (b), the Company completed a private placement of common shares as well as a settlement of debt subsequent to the reporting period. At December 31, 2012 funds totaling $404,666 were received in advance of closing of this private placement and are reflected as an obligation to issue shares at December 31, 2012. The required shares were issued on closing of this private placement on January 18, 2013. At December 31, 2012, the Company had incurred $8,288 in professional fees that relates to this private placement and this has been recorded in share issue costs.

Escrow and restricted shares

Shares totalling 8,102,669 shares and 1,850,000 stock options that were held by the principals of the Company prior to the completion of the IPO are subject to escrow provisions and are being released in accordance with a schedule imposed by the TSX-V which is that 10% of such securities were released upon the Company's shares being listed on the TSX-V and 15% will be released every six months thereafter. In addition, 1,919,834 shares and 125,000 stock options held by non-principals prior to the IPO, are subject to resale restrictions imposed by the TSX-V , which amounts to 1,000,000 of such shares being subject to the same provisions as noted above for the principals and the remainder generally subject to a timed release of 20% every month, amongst other provisions.

As of December 31, 2012, 3,646,201 (December 31, 2011 – 6,658,669) of the above noted shares and 720,000 (December 31, 2011 – 1,387,500) of the above noted stock options are still held in escrow or subject to a release schedule.

Stock options

The Company has established a Stock Option Plan (the "Plan") for directors, officers, employees and consultants. The number of common shares that are available for grants of options under the Plan shall not at any time exceed 10% of the number of outstanding common shares, calculated at the time of grant. Options granted under the Plan generally have a term of five years and vest on the date of the grant.

(Expressed in Canadian dollars)

11. SHARE CAPITAL – *Continued*

Stock options – *Continued*

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

	December 31, 2012		December 31, 2011	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		$		$
Options outstanding, beginning of year	5,105,000	0.32	2,225,000	0.16
Granted	-	-	2,955,000	0.44
Exercised	-	-	(50,000)	0.15
Expired	(450,000)	0.31	(25,000)	0.15
Options outstanding and exercisable, end of year	4,655,000	0.32	5,105,000	0.32

On February 10, 2011 the Company granted 1,475,000 stock options with an exercise price of $0.50 per share. The fair value of these stock options granted has been estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: expected dividend yield of 0%; expected volatility of 190%; a risk-free interest rate of 1.69% and an expected average life of 5 years. The resultant charge of $713,711 has been charged to stock-based compensation expense and credited to share-based payment reserve.

On December 17, 2011 the Company granted 1,480,000 stock options with an exercise price of $0.38 per share. The fair value of these stock options granted has been estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: expected dividend yield of 0%; expected volatility of 168%; a risk-free interest rate of 1.18% and an expected average life of 5 years. The resultant charge of $529,451 has been charged to stock-based compensation expense and credited to share-based payment reserve.

As of December 31, 2012, certain of these stock options totaling 720,000 (December 31, 2011 - 1,387,500) stock options, remain subject to escrow and resale restrictions as described above.

The stock options expire as follows: 525,000 options with an average exercise price of $0.15 per share in 2013 (subsequent to December 31, 2012 these options expired unexercised), 1,375,000 options with an average exercise price of $0.17 per share in 2015 and 2,755,000 options with an average exercise price of $0.44 in 2016. The weighted average remaining contractual life of the outstanding stock options is 2.75 years.

(Expressed in Canadian dollars)

12. WARRANTS

The issued and outstanding warrants are comprised of the following:

Date of expiry	Warrant Reserve	Number of warrants	Exercise Price
	$		$
February 10, 2013	1,488,423	4,000,000	0.70*
February 10, 2013	323,395	560,000	0.50*
August 3, 2013	1,939,413	4,910,666	0.80
August 3, 2013	411,721	666,493	0.60
Balance, December 31, 2012	**4,162,952**	**10,137,159**	

*Subsequent to December 31, 2012, these warrants expired unexercised.

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

	December 31, 2012		December 31, 2011	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		$		$
Warrants outstanding, beginning of year	12,328,159	0.73	2,191,000	0.69
Granted	-	-	10,137,159	0.73
Expired	(2,191,000)	0.70	-	-
Warrants outstanding, end of year	10,137,159	0.73	12,328,159	0.73

At December 31, 2012, the weighted average remaining contractual life of the outstanding warrants was 0.36 years.

13. SHARE-BASED PAYMENT RESERVE

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

	$
Expired warrants	397,023
Expired stock options	264,076
Unexpired stock options	1,451,367
Balance, December 31, 2012	**2,112,466**

(Expressed in Canadian dollars)

14. INCOME TAXES

A reconciliation of current taxes at the statutory tax rates with the reported taxes is as follows based on an income tax rate of 26.5% (2011 – 28%):

	2012 $	2011 $
Net loss before income taxes	(3,368,271)	(3,204,192)
Expected tax recovery at statutory rates	(892,592)	(897,174)
Decrease (increase) resulting from:		
Permanent differences	5,033	371,340
Income tax rate changes	(99,297)	(37,560)
Change in valuation allowance	808,602	497,924
Other	178,254	65,470
Income tax recovery	-	-

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	December 31, 2012 $	December 31, 2011 $
Non-capital losses carried forward	2,315,970	1,254,836
Exploration and evaluation assets and equipment	(578,527)	(376,662)
Other	165,143	215,810
Total	1,902,586	1,093,984
Valuation allowance	(1,902,586)	(1,093,984)
Deferred tax liabilities	-	-

Management has determined that the realization of these deferred income tax assets is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has not recognized the potential deferred income tax assets.

The following summarizes the expiry of deductible temporary differences for which no deferred tax asset has been recognized.

	Canadian non-capital losses $	Canadian equipment and resource pools $	Africa non-capital losses $	Canadian share issue costs $
2026	1,002			
2027	187,278			
2028	282,809			
2029	326,707			
2030	646,312			
2031	1,921,687			
2032	1,332,229			
No expiry	-	1,302,789	3,648,277	620,590
	4,698,024	1,302,789	3,648,077	620,590

(Expressed in Canadian dollars)

15. LOSS PER SHARE

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

	December 31, 2012	December 31, 2011
	$	$
Net loss attributable to owners of the parent company	(3,368,271)	(3,204,192)
Weighted average number of ordinary shares outstanding	54,687,063	45,836,826
Basic and diluted loss per ordinary share	(0.06)	(0.07)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements, except as disclosed in Note 22.

16. COMMITMENTS AND CONTINGENCIES

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in Note 9.

17. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Year ended December 31	
	2012	**2011**
	$	$
Compensation of directors		
Short-term benefits	55,481	52,234
Share-based payments	-	308,400
	55,481	360,634
Compensation of key management personnel		
Short-term benefits	864,982	577,244
Share-based payments	-	678,000
	864,982	1,255,244
Total remuneration of directors and key management personnel	**920,463**	**1,615,878**

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS – *Continued*

Related party transactions

The Company incurred the following transactions with management, directors, officers or companies which have directors in common, or in which the directors have significant influence and interests.

	Year ended December 31	
	2012	**2011**
	$	**$**
Exploration and evaluation asset transactions		
Geological consulting	78,720	425,117
Other	67,891	45,709
Total exploration and evaluation asset transactions	146,611	470,826
Operating expense transactions		
Consulting, directors', administrative and management fees	95,514	102,920
General and administrative	19,000	27,952
Project investigation costs	3,900	39,842
Shareholder and regulatory	38,984	50,578
	157,398	221,291
Total trading transactions with related parties	**304,009**	**692,118**

Related party balances

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

	December 31, 2012	December 31, 2011
	$	**$**
Due to related parties	**971,103**	**221,426**

The amounts due to related parties represent amounts due to directors and officers or companies which have directors in common, or in which the directors have significant influence and interests. These amounts are unsecured, non-interest bearing and are due within twelve months.

18. SEGMENTED INFORMATION

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

(Expressed in Canadian dollars)

18. SEGMENTED INFORMATION – *Continued*

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

As at December 31, 2012	Canada	Tanzania	South Africa	Total
	$	$	$	$
Plant and equipment	-	99,809	-	99,809
Exploration and evaluation assets	164,186	8,565,210	-	8,729,396
Total non-current assets	**164,186**	**8,665,019**	**-**	**8,829,205**

As at December 31, 2011	Canada	Tanzania	South Africa	Total
	$	$	$	$
Reclamation bonds			32,010	32,010
Plant and equipment	-	122,431	-	122,431
Exploration and evaluation assets	1,373,133	7,264,899	1,487,634	10,125,666
Total non-current assets	**1,373,133**	**7,387,330**	**1,519,644**	**10,280,107**

19. NON-CASH TRANSACTIONS

During the year ended December 31, 2012 and 2011, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	December 31, 2012	December 31, 2011
	$	$
Warrants issued for share issue costs	-	735,116
Shares issued for acquisition of subsidiary	-	750,000

20. CAPITAL MANAGEMENT

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

20. CAPITAL MANAGEMENT – *Continued*

The Company's principle assets are in the exploration and evaluation stage and, as a result, the Company currently has no source of operating cash flow. In order to facilitate the management of capital and exploration of its mineral properties, the Company needs to raise capital as and when required to complete its projects and for working capital. The sources of future funds presently available to the Company are through the issuance of new share capital, through the exercise of stock options and/or warrants or through divestiture of non-strategic assets. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as the business performance of the Company. There can be no assurances that the Company will be successful in its efforts to arrange additional financing, when required, on terms satisfactory to the Company.

Management prepares operating budgets to forecast its financing requirements in advance and they review their capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company. The Company's investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity. The Company's overall strategy remains unchanged from the prior period. The Company is not subject to any externally imposed capital requirements.

21. RISK MANAGEMENT

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

Industry Risk
The Company is engaged in the mineral exploration field, which is subject to inherent risks of success as well as compliance with environmental, political and regulatory requirements. The Company is potentially at risk for environmental reclamation obligations associated with resource property interests. As well, the Company operates in foreign countries and is subject to local political risks, as well as local regulatory requirements regarding ownership and maintenance of mineral licences. Management is of the opinion that they have the expertise to address these risks and makes all efforts to conduct their business in compliance with local industry standards, however environmental and local industry laws and practices are complex, and there is no certainty that all exposure to liability or costs have been mitigated.

Credit Risk
Credit risk is the risk of loss associated with a counter-party's ability to fulfill its payment obligations. The Company's primary exposure to credit risk is attributable to its cash and cash equivalents, as well as trade and other receivables. This risk relating to cash and cash equivalents is considered low since the Company only invests its cash in major banks which are high credit quality financial institutions. The trade and other receivables primarily comprise local sales tax refunds due from governmental agencies and, as such, management considers the risk with their collection minimal. The cash and cash equivalents are invested in short-term investment certificates for periods less than 90 days and the trade and other receivables are due in less than 90 days.

Liquidity Risk
Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements and to develop budgets to forecast cash requirements in advance of their requirements. As discussed previously in Note 20, the Company currently does not have a source of operating cash flow and must raise funds for its exploration and evaluation programs and for general working capital. There are risks associated with raising the funds required, and there can be no assurances that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. The Company's trade and other payables are generally due within 90 days, with all amounts due within twelve months.

21. RISK MANAGEMENT – *Continued*

Interest Rate Risk
Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents which represent excess cash invested in short-term investments and these accrue interest at variable market rates. The Company monitors these investments with its need for cash flow and is satisfied with the return on these investments, given the timing of the need for cash in the Company. If interest rates increased or decreased by 0.5%, the loss for the year would be higher or lower by $422 (December 31, 2011 - $15,086). The Company has no interest-bearing liabilities.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada, South Africa and Tanzania and portions of its expenditures are incurred in US dollars, South African Rand and Tanzanian Shillings. The Company's presentation currency is the Canadian dollar ("CAD"), the Tanzanian subsidiaries' functional currency is the United States dollar ("USD") and the South African subsidiaries' functional currency is South African Rand ("ZAR"). At December 31, 2012 and 2011, the value of financial assets and liabilities denominated in currencies other than the functional currency of the entity to which they relate is not significant.

Commodity Price Risk
The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value of its exploration and evaluation assets, due to commodity price movements and volatilities. The Company monitors commodity prices (primarily rare earth elements, phosphates and uranium) to determine the appropriate course of action to be taken by the Company.

22. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2012 the following events took place:

a) On January 3, 2013, the Company completed a debt settlement by issuing 5,144,616 common shares at a fair value of $0.125 per share to settle trade and other payables totalling $643,077.

b) On January 18, 2013, the Company closed a private placement by issuing 11,200,000 Units at a price of $0.125 per Unit for gross cash proceeds of $1,400,000. Each Unit consists of one common share and one common share warrant to purchase one common share at a price of $0.25 per share until January 18, 2015. In connection with the private placement, the Company paid a finders' fee of $66,377 and issued 531,020 Finders' Warrants. Each Finder's Warrant entitles the holder to acquire one Unit at a price of $0.125 per Unit until January 18, 2015.