MONTERO MINING AND EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2012

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 25, 2013 and should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company as and for the year ended December 31, 2012. 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 has continued its exploration program on the Wigu Hill Rare Earth Element ("REE") project in Tanzania, with highlights including:
  - Active discussions with funding parties to secure project financing to further development the Wigu Hill rare earth Project.
  - A non-binding term sheet with a Strategic Investor ("Investor") was signed on November 16, 2012, whereby the Investor has proposed to provide equity project funding for the further development of the Wigu Hill Project. The terms and conditions are indicative at this stage, and the Investor is conducting further due diligence, the results of which are subject to approval by the Investor's Executive Management and Board of Directors.
  - The Social Impact Assessment (SIA) and the SIA studies relating to the Wigu Hill Project area were completed in the 4th quarter, 2012. The final Environmental Social Impact Assessment (ESIA) report was submitted to the environmental authorities in Tanzania for final review and approval.
  - The Wigu Hill project camp site has been closed in March 2013 due to the rains.
  - In Q1 2013 geological mapping continued and metallurgical samples were taken from different parts of the mineralization currently exposed at Wigu Hill. This is for further metallurgical testwork at the various laboratories and to satisfy an obligation to Mintek for a large sample on which to conduct solvent extraction testwork in a pilot plant currently being constructed in South Africa. This work will be at no cost to Montero.
- The Company decided to sell the Phosco assets and appointed an Advisor to assist with this process. Discussions have been undertaken with interested parties, but no formal offers have been received at this stage.
- Subsequent to the year-end the Company completed a debt settlement for amounts totalling $643,077 by issuing 5,144,616 common shares and also closed a private placement raising gross proceeds of $1,400,000 by issuing 11,200,000 Units. 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.
- The Company reviewed its uranium exploration assets and given the current economic climate and financing conditions, recorded an impairment charge of $1,942,364 in regards to its Quebec properties in Canada and its Liwale and Iringa properties in Tanzania.
- Exploration expenditures of $2,332,896 were made during the year with the majority being spent on the Wigu Hill project in Tanzania.
- Montero's operating expenses excluding impairment charges decreased during the year to $1,428,102 compared to $3,227,942 for the prior year, primarily due to the impairment charge of $1,942,364 offset by no stock options being granted this year.

- The Company recorded a net loss of $3,368,271 ($0.06 per share) for the year ended December 31, 2012 compared to a net loss of $3,204,192 ($0.07 per share) for the year ended December 31, 2011.

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 is a public company listed on the TSX Venture Exchange, and is trading under the symbol *MON.V*. The Company's registered address is 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; Phone: 416-840-9197; Fax: 866-688-4671; Web: www.monteromining.com.

The Company is engaged in the identification, acquisition, evaluation, exploration and development 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 exploration and evaluation assets 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 host 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 exploration and evaluation assets through the issuance of common shares where possible to preserve the Company's cash reserves.

Management is experienced 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 200 years of mining, geological and exploration experience and have been part of at least 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 expertise to evaluate and acquire exploration assets that can be tested, further explored with a view to defining resources and ultimately 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 exploration and evaluation assets to maintain the licences in good standing.

Our Exploration Results for the Year

Michael J Evans, Montero's consulting geologist is a qualified person as defined by National Instrument 43-101, and has 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). The area of interest is covered by 2 Prospecting Licences and currently cover an area of 55.65 km^2 (Wigu PL3379: 15.14 km^2 and Nyarutanga PL4834: 40.51 km^2) straddling Wigu Hill itself including a contiguous area to the south. Documents for the areas which required relinquishment and reapplications for the area of the original 2 Wigu Hill licences, covering an area of 86.21 km^2 in extent are in process with the Tanzanian Ministry of Energy and Minerals.

On May 26, 2008 (amended September 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"). On April 27, 2010 Montero and RSR signed an amendment agreement whereby, 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 outlined 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 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 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 were 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 failed to pay 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. 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%.

The Wigu Hill carbonatite complex is known to be an extensive occurrence of rare earth mineralization, with bastnaesite-rich carbonatite dikes hosting high grade TREO's dominantly the light rare earths which includes: Cerium, Lanthanum, Neodymium, Praseodymium and Samarium.

Reconnaissance exploration sampling in 2009 identified a number of REE enriched sheeted carbonatite dikes across Wigu Hill with high average TREO values. Based on this evidence of the widespread occurrence of bastnaesite-bearing carbonatites, exploration was focussed on the eastern side of Wigu Hill at the Tembo, Twiga, Tumbili and Nyati Targets.

In 2011, an exploration team focussed on mapping and additional grab sampling over the full extent of Wigu Hill. The sample results have been combined with the original reconnaissance assay data. The assay results are very positive and complement and expand upon the original reconnaissance sampling results which emphasized the extent of the mineralization.

The main Wigu Hill Prospecting licence PL3379 was due to expire on the 30th June 2012 ending the seven-year tenure of the licence. Upon advice from the Mining Commissioner, the application for an extension to the licence was submitted for a fourth term of two years supported by a comprehensive property renewal report. The extension for a fourth term of two years effective from July 1, 2012 to June 30, 2014 was granted and this extension will enable the Mining Licence application to be submitted.

A comprehensive report on all aspects of exploration and development of the Wigu Hill project has been developed with attendant supporting reports and documentation.

Tembo and Twiga Targets

The exploration of the Twiga and Tembo Targets is at an advanced stage with a preliminary resource estimated for these targets based on trenching and initial drilling data. This initial work has been followed by a programme of infill drilling and development of a geological model for the Twiga Target with compilation of a resource for Twiga commenced.

Arrangements to take a >5 tonne bulk sample of mineralised dike material for X-Ray separation and further larger scale physical metallurgical test work has been planned for the shipment of this material for testing at Mintek in South Africa.

Early exploration in 2010 finalized the trenching, sampling and geological mapping of the Tembo Target (Target 6).

In 2011, the bastnaesite-rich carbonatite dykes on both Tembo and Twiga Targets were assessed in detail by infill trenching and core drilling of 14 core boreholes ("BH") (1,610m) on Twiga and 5 boreholes (540m) on Tembo for a total of 19 boreholes and 2,150m of core drilling (refer news releases April 11, 2011 - Twiga trenching; May 16, 2011 - Twiga drilling and June 22, 2011 - Tembo trenching and drilling). All of the data collected during the exploration campaign was entered into an Access database.

AMEC Earth & Environmental UK Ltd. ("AMEC") developed a geological model of the Tembo and Twiga Targets on which to base a resource assessment. The preliminary resource was defined in the NI43-101 resource report finalised by October 24, 2011 (refer to news releases dated September 12, 2011 and October 24, 2011).

Infill drilling commenced at the Twiga Target on the mineralised "EW" Dike and a total of 17 boreholes (895.3m) were drilled at approximately 25m spacings to determine geological and grade continuity of the "EW" dike, with a view to establishing a small, near surface, high grade reserve of bastnaesite mineralisation. The cores were sampled and the assays received, processed and assessed (refer to news releases dated November 15, 2011 and January 26, 2012).

Turgis Consulting of South Africa (Turgis) conducted an independent geotechnical review of the Twiga Target to assess the requirements to commence a small mining operation and are preparing a Scoping Study for this potential operation.

The Twiga Target infill drilling sample data and assay results were used to develop a geological model for the carbonatite dikes mineralization in December 2011 and further work is required to define a preliminary tonnage and grade for the small high grade zone to be considered for a preliminary mining operation. A Scoping Study was initiated by Turgis to investigate the potential for a small mining operation at Wigu Hill. This is planned to be finalized after the revised resource estimation of the Twiga Target.

Extensive metallurgical test work was undertaken by Mintek in Johannesburg and initial orientation tests were followed by a successful bench scale leach test. A second phase of leach tests returned positive results, and based on this, a third phase of detailed leach test work was undertaken by year end. The hydro-metallurgical testwork program with monitoring and modification of procedures resulted in an optimised leaching process which produced a final mixed rare earth solution from which a mixed rare earth and cerium salt can be prepared (refer to news release dated March 5, 2012). A final draft on the optimisation testwork has been made available with the final optimisation parameters not tested in a continuous process. This requires a final continuous bulk leach campaign which is being planned. Additional test work is being investigated, both in-house and with Mintek to determine the best options to produce an upgraded bastnasite concentrate.

Tumbili Target

Exploration work on the Tumbili Target included detailed mapping, trenching and drilling. By July 2011, 1,525m of core drilling had been completed from 6 deep boreholes (165m to 325m). An assessment of the drilling and trenching at Tumbili has led to the conclusion that the nature of the geology and the lower tenor of the assay results in the range of 0.5 – 3.0% TREO has downgraded this target's immediate potential to focus of exploration upslope of Tumbili to the Nyati Target.

Exploration at Tumbili was revisited during the last quarter with the development of a single 157m long trench within the carbonatite breccia. Results are awaited to determine the distribution of rare earth mineralization in the breccia.

Nyati Target

Geological mapping and sampling upslope from the Tumbili Target was successful in defining outcrops of well mineralised dolomitic carbonatite dike swarms over a significant area. Rock chip sampling of the available outcrops over a wide area returned high TREO (total rare earth oxide) values from the well mineralised bastnaesite-rich carbonatites from a total of 100 samples (refer news release October 11, 2011). Follow up sampling substantiated these positive results with 26 samples at Lower Nyati averaging 12.15% TREO and 104 panel samples at Upper Nyati averaging 7.08% TREO (refer to news release dated April 2, 2012). These latter results demonstrate that the positive results being defined at Lower Nyati host the extension upslope.

The grab and panel sample assay results established that the Nyati Target is a significant and extensive zone of mineralisation that warranted more detailed exploration. A program of trenching and core drilling was initiated at the end of the first quarter of 2012, results from 3 trenches (refer to news release April 2, 2012) and 5 core boreholes (1,030m) had been reported from Lower Nyati (refer to news release dated April 12, 2012).

Drill pads were prepared and road access was extended onto the Nyati Target during the period. In addition, other sections of road were repaired and improved. A number of drilling contractors were approached to quote on further planned drilling at Nyati. Further evaluation work will be advanced using the currently available data, with site preparations completed.

Work in the second quarter of 2012 focused on more detailed assessment work on the Lower Nyati Target. The results of trenches WTRN004 – WTRN007 substantiate the continuity of mineralization indicated by the grab sampling, earlier trenching and the positive drilling data (refer to news release dated June 13, 2012).

A total of 19 drill pads were prepared at Lower Nyati during the first quarter. The surface trace of these drill holes were cleared and all available outcrop was sampled and mapped in detail in preparation for the proposed drilling program.

Re-logging of the 5 Lower Nyati boreholes has been undertaken and this information used on the compilation plots from the geological mapping of the surface zone described above. This data is assisting in understanding the distribution of the rare earth mineralization.

During the Q2 and Q3 of 2012 period, a geological plan of the entire Wigu Hill Project area was compiled including the assay data from the mapping and sampling program completed in December 2011 and a preliminary assessment made of the distribution of the higher grade TREO assays. The overview assessment on the distribution of the grab sample values combined with historic data from sampling in 2009 confirms that the Lower and Upper Nyati Target areas are priority targets, but that significant additional potential exists within the other target areas nearby. This data will be useful in guiding future exploration efforts.

Work on the environmental impact assessment program at Wigu Hill is ongoing with the Tanzanian Environmental consultants, MTL Consulting Company Ltd ("MTL"). The Fauna study is included with the set of the baseline environmental reports compiled by Montero and submitted to MTL to assist in the Environmental Impact Assessment ("EIA") work currently in process.

The exploration camp was closed in May 2012 due to the seasonal rains and consolidation and processing of data and results is ongoing.

Metallurgical test work at Mintek has continued, and although the leach test work report did not meet all the required objectives, the report was successful in quantifying all of the optimization requirements for the leach process. Bulk leach tests which would confirm the final objectives are ongoing and the results thereof are expect before year end from Mintek.

Various physical separation methods being assessed by Mintek and some selective tests on particle size analysis and related mineralogical tests are currently in progress to improve the mineral separation techniques. A detailed in-depth review of all the prior physical separation, metallurgical, pyro-metallurgical and hydrometallurgical test work undertaken to date was undertaken to assist and define future work requirements with a focus on the positive results achieved to date.

During Q2 and Q3 of 2012, exploration on the Wigu Hill Rare Earth Element ("REE") project in Tanzania continued. Geological and planning assessment work continued with a view to defining the next stage of drill targets and planning of re-commencement of active operations on the Wigu Hill Project site. These activities were focused on the eastern and east central extent of the Wigu Hill carbonatite complex. Specifically the Lower Nyati Target with additional work focused on the Upper Nyati target where positive grab sample assay values have confirmed the potential for high grade concentrations of TREO mineralisation (refer to news release dated April 3, 2012).

The exploration database was updated to include all additional information gathered to date including data for all the latest boreholes drilled, trenches completed and includes the geological and statistical data to date.

A 1,500kg bulk sample was taken from Wigu Hill with an estimated grade of >10%TREO which is to be used in the preparation of TREO solutions for solvent extraction and refining testwork purposes at Mintek. This sample was transported to Dar es Salaam and then to Mintek in Johannesburg, South Africa to be used in a pilot plant facility currently being constructed. This work to be conducted by Mintek will have no cost implications to Montero and the company shall retain all information from such testwork.

The Social Impact Assessment (SIA) commenced in Q2, was finalized by the environmental consulting company, MTL, and a final report on the results obtained has been submitted to the environmental authorities for review and approval.

During Q4 2012, the field operations were again focussed on planning for future drilling and evaluation work. Cut lines were established on each of the proposed infill drill lines on the Lower Nyati target. Sampling traverses were undertaken, but sampling focussed only on the sections where good outcrop occurred. Trench TU001 on the Tumbili target was reopened and re-mapped so as to assess the distribution of mineralisation within the carbonatite breccia unit. Geological mapping on a reconnaissance basis was extended to the upper reaches of the Upper Nyati target to assess the viability of selected exploration drilling to delineate new targets. This was found to be impractical due to steep slopes and very difficult access. Numerous drilling companies were approached for expressions of interest in drilling at Wigu Hill and their proposals assessed in detail.

All of the sample pulps and coarse sample "reject" material was transferred from ALS Chemex in Mwanza to Montero's Dar es Salam office for storage, with the material catalogued and stored. Selected material was selected for check assay and sent to an overseas laboratory.

The exploration camp re-opened and minimum field exploration work was done in Q1. 2013.

A detailed review of all metallurgical testwork initiatives was undertaken. Meetings were held with Mintek to define a timeline for implementation of selected testwork programmes and completion of outstanding report. The priority focus on flotation testwork resulted in a number of quotes secured. SGS Mineral Services in Lakefield, Canada was selected to undertake preliminary testwork and a 20kg sample was delivered to commence work in January 2013.

MTL compiled the environmental data into a scoping report together with the required Terms of Reference (ToR) for a full Environmental Impact Assessment (EIA) and submitted to NEMC (National Environmental Management Council), the governmental environmental agency, for review and acceptance. The baseline data for the EIA report has been compiled and compilation of the final report together with the relevant statements on the potential environmental impacts has been submitted to Government in December 2012. This is the last stage of the environmental and social study assessment work and a positive outcome will result the issuing of an acceptance certificate.

As at December 31, 2012, the Company had incurred cumulative acquisition costs of $1,228,946 and cumulative exploration and evaluation costs of $7,336,264 for a total investment of $8,565,210 on the Wigu Hill Project.

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.

The Iringa licence area is 350 kms west-south-west of Dar es Salaam located in the Kilombera Basin with indications of uranium mineralization occurrences in a granite-pegmatite host.

Exploration activity has included reconnaissance exploration field evaluations that confirmed a number of source rock pegmatites (alaskitic - thick potash rich granite sheets marked by high background radiometric anomalies), highlights the potential for finding uranium mineralisation warrants further reconnaissance exploration in this extensive area.

The data and reports were consolidated and assessed with the required expenditure to be spent in the project area. A field trip was undertaken to PL4095 (Kimhandu),
immediately to the north of Wigu Hill, to assess the uranium potential of this area.
4`
The Liwale licence area is ~400 kms south-west of Dar es Salaam and located in the east edge of the Selous (Luwegu) Basin. The area covers a swathe of the Selous Basin in-filled 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.

Work focused on consolidation of data and reports and assessed with the required expenditure to be spent on the project area. Discussions were initiated and are ongoing with interested parties to review the exploration data for the Iringa and Liwale licence areas with a view of carrying out future exploration work on a JV basis.

The exploration and evaluation asset costs on these large project areas have been written down during the year ended December 31, 2012 primarily due to the increased licence fees and work expenditure commitments required to be met as regulated by the Tanzanian revised Mining Act and the Company's focus on the Wigu Hill project.

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.

South Africa

Phosco Project

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 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. This payment was used to settle the liabilities of Eurozone. 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 Venture Exchange and the Company issued the 2,500,000 common shares to complete the acquisition of Eurozone.

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 Phosco assets cover four phosphate exploration projects, namely: Phillips Kraal, Duyker Eiland and Lamberts Bay in the Western Cape and Bierkraal in the Northwest Province. The due diligence review assessed that there is sufficient topographical evidence to indicate an accumulation of phosphatic sediments in the Lamberts Bay area. The Bierkraal project area is located in an apatite-rich layer of the Bushveld Igneous Complex.

The licences for Phillips Kraal, Duyker Eiland, Lamberts Bay and Bierkraal are in good standing.

The Company has 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. Interest has been shown by several parties, but no formal offers have yet been received.

Duyker Eiland Project

In late 2011 an independent NI43-101 compliant Mineral Resource Estimate of the sedimentary phosphate deposit at the Duyker Eiland project was completed. A total Inferred Mineral Resource of 32.8 M tonnes at a grade of 7.15% P_2O_5has been outlined. Preliminary metallurgical test work has indicated that an acid-grade phosphate concentrate of 33% P_2O_5 to 35% P_2O_5 (72.1% BPL to 76.5% BPL) can be produced by flotation. The NI43-101 resource evaluation compliant resource report was prepared by AMEC Earth & Environmental UK Ltd. (AMEC) and posted on SEDAR in December 2011.

The NI43-101 Preliminary Economic Assessment (PEA) of the Duyker Eiland Project was completed by Turgis Consulting (Pty) Ltd. (refer news releases February 28, 2012 and April 13, 2012). The PEA is preliminary in nature and it includes the Inferred Mineral Resources which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves.

Selected environmental baseline studies (a low cost botanical survey was initiated in the 3rd Quarter, 2012) and additional analyses commenced in April 2012 on the existing test concentrates will focus on elements detailed in legislation relating to concentrations in fertilizer products.

In the second quarter of 2012, a comprehensive set of reports were compiled for submission the Department of Mineral Resources (Western Cape) in order to fulfill requirements for renewal of the Duyker Eiland Prospecting Right. This process is ongoing and included a successful site visit by personnel from the Mine Economics section of the Department of Mineral Resources of South Africa.

As of December 31, 2012, Montero has spent a total of $1,532,077 on acquisition and exploration costs, and reclamation bonds related to the Phosco assets, which are now disclosed as *Held for Sale* assets in accordance with International Financial Reporting Standards ("IFRS").

Canada

Girard Claim Area, Quebec

The Girard Claim area is located 33 kms south of Cadillac town lies within the Abitibi-Temiscamingue region, in south-west Quebec province and the licence area is accessible via Highway 117 with all weather roads access. The original contiguous licence claims covered an area of 89.5 kms^2. The terrain is partially covered by glacial till, is undulating and covered with temperate forest.

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 totalled $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. 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.

Past exploration work identified three areas with presence of uranium in anomalous concentrations: the North Beraud zone; the Ridge and LSD areas. The technical report written in 2008 and revised in 2009 have shown the presence of low level uranium values and resulted in further exploration work in (2009/2010) consisting of a sampling program, with coincident magnetic survey, with results covering 29 line kms that contoured values above 4.75ppm uranium and delineated a series of flat lying zones with higher uranium values indicated amounts greater than 100ppm of more valuable heavy REE (combined values of erbium, dysprosium and ytterbium). A magnetic survey in the King Lake and East Ledah vicinity in the northern centre of the licence block adds data to the licence area.

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. The Company plans to retain and continue exploration work on certain claim areas with a recorded exploration asset value of $164,186.

Lac Yvonne Claim Area, Quebec

The Lac Yvonne claim area is located approximately 100 kms south of Chibougamau in the Bressani Township, in south-west Quebec province covering a contiguous area of 10.1 kms^2. The area hosts three pegmatite uranium showings and historical data indicate uranium and gold showings along granite/pegmatite-greywacke/iron formation sheared contacts.

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 up to 2012 included line cutting, magnetic geophysical and radiometric surveys, and mapping.

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.

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 consolidated financial statements have been prepared using 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. 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, 2012, the Company conducted exploration work on its exploration and evaluation assets. The majority of the work was conducted on the Wigu Hill prospect in Tanzania. The total cash expenditures on exploration and evaluation assets and assets held for sale were $2,332,896 for the year ended December 31, 2012 ($5,857,052 for the year ended December 31, 2011).

The Company's operating costs increased slightly for year ended December 31, 2012 to $3,370,466 compared to $3,227,942 for the year ended December 31, 2011. Consulting, directors, administrative and management fees were lower due to reduced consulting personnel and strategic planning costs undertaken in the prior year, with no such amounts in the current year. General and administrative and other expenses have decreased due to management efforts to reduce costs. Impairment of exploration and evaluation assets was higher during 2012 due to the impairment charge of $1,942,364 in 2012 compared to $Nil in 2011. Professional fees are lower due to less financing and exploration activities undertaken in the current year requiring these services. Shareholder and regulatory costs are also lower this year due to less investor relations programs undertaken as well as reduced marketing consulting fees. No stock options were granted in the current year, resulting in $Nil stock-based compensation expense this year.

At December 31, 2012, the Company had cash and cash equivalents on hand of $498,872 compared to $3,249,762 on hand at December 31, 2011. Further funds were raised subsequent to the year end by the closing of a $1,400,000 private placement. The Company will require further funds in the future for general working capital and to fund its exploration programs 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 create value by a focus on exploring, discovery and development of grass-roots rare earth element, phosphate and uranium deposits in geologically prospective under-explored regions in Tanzania, South Africa and Quebec, Canada.

The Company believes that it has a portfolio of rare earth element, phosphate and uranium projects that can add value to the company and will seek methods of adding value by de-risking its portfolio of assets by drilling the resources and conducting metallurgy in a timely fashion, by raising exploration funding and using such funds in a prudent manner or joint venture or by disposal of non-strategic assets.

1.3 SELECTED ANNUAL INFORMATION

	Year ended December 31		
	2012	**2011**	**2010**
			restated to IFRS
Consulting, directors', administrative and management fees	$ 791,960	$ 820,564	$ 315,607
Depreciation	41,287	17,676	12,236
Impairment of exploration and evaluation assets	1,942,364	-	24,583
Professional fees	129,241	280,715	248,579
Project investigation costs	11,281	136,029	60,117
Shareholder and regulatory	268,608	368,539	54,363
Stock-based compensation	-	1,243,162	167,109
Other operating costs	185,725	361,257	193,727
Interest income and other	(2,195)	(23,750)	(12,038)
Deferred income taxes	-	-	(62,863)
Net (loss)	(3,368,271)	(3,204,192)	(1,001,420)
Basic and diluted (loss) per share	$ (0.06)	$ (0.07)	$ (0.03)
Exploration and evaluation assets	8,729,396	10,125,666	3,361,916
Total assets	10,906,874	13,668,334	4,996,548
Total liabilities	1,576,623	1,071,596	382,824
Shareholders' equity	9,330,251	12,596,738	4,613,724

The above financial information for 2012 and 2011 has been prepared in accordance with IFRS and the amounts for 2010 have been restated from amounts previously reported under Canadian GAAP to those amounts reported in compliance with IFRS.

1.4 RESULTS OF 2012 OPERATIONS

During the year ended December 31, 2012, Montero continued exploration work on its Wigu Hill property in Tanzania, continued its efforts to sell its Phosco assets and rationalized its land position in Quebec, Canada and the Iringa and Liwale areas of Tanzania. Total cash exploration costs incurred during the year ended December 31, 2012 totaled $2,332,896 (year ended December 31, 2011 - $5,857,052), which was spent primarily on the Wigu Hill Project. The Company continued its efforts to sell or joint venture its Phosco assets and has had various discussions with several interested parties, but no formal offers have yet been received.

The Company's operating expenses increased slightly during the year ended December 31, 2012 compared to the year ended December 31, 2011. Significant changes in these expenses are outlined below.

Consulting, directors', administrative and management fees decreased from $820,564 for the year ended December 31, 2011 to $791,960 for the year ended December 31, 2012. The main reason for this decrease is reduced consulting fees, as personnel were reduced. As well, corporate strategic planning sessions were undertaken in the prior year which did not occur in the current year.

General and administrative costs decreased from $167,319 for the year ended December 31, 2011 to $81,944 for the year ended December 31, 2012 due to reduced costs for rent obtained and generally less activity in the Company this year.

Impairment of exploration and evaluation assets was $1,942,364 for the year ended December 31, 2012 compared to $Nil in the prior year due to the Company recording impairment charges on its exploration and evaluation assets in Quebec, Canada and Iringa and Liwale in Tanzania.

Other expenses decreased from $193,938 for the year ended December 31, 2011 to $103,781 for the year ended December 31, 2012 primarily because of reduced travel undertaken in the current year compared to the prior year due to less investor relation activity as well as less operational activity.

Professional fees decreased from $280,715 for the year ended December 31, 2011 to $129,241 for the year ended December 31, 2012 due to reduced legal fees required for regulatory, financing and various exploration agreements in the current year compared to the prior year.

Project investigation costs were limited for the year ended December 31, 2012 with costs incurred of $11,281 compared to $136,029 undertaken in the prior year.

Shareholder and regulatory expenses decreased from $368,539 for the year ended December 31, 2011 to $268,608 for the year ended December 31, 2012 due to less investor relations activities undertaken in the current year including reduced consulting fees for marketing personnel and fewer investor relations conferences and marketing materials being required.

There were no stock options granted for the year ended December 31, 2012 compared to **stock-based compensation** of $1,243,162 related to stock options granted for year ended December 31, 2011.

The Company's net loss for the year ended December 31, 2012 was $3,368,271, $0.06 per share, compared with a net loss of $3,204,192, $0.07 per share for the year ended December 31, 2011.

Montero's cash and cash equivalents amounted to $498,872 at December 31, 2012 compared to $3,249,762 at December 31, 2011. Subsequent to the year-end, debts were settled through share issuances and funds were raised through a private placement. However, the Company will require further funds in the future to fund its operations and exploration programs 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 operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year to Date* and the consolidated financial statements for the year ended December 31, 2012 (Notes 7 and 9).

The Company has no contingent liabilities.

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. 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**

1.5 SUMMARY OF QUARTERLY RESULTS

	Q4	**Q3**	**Q2**	**Q1**
	$	**$**	**$**	**$**
Consulting, directors', administrative and management fees	138,005	167,658	195,630	290,667
Impairment of exploration and evaluation assets	1,282,810	42,228	617,326	-
Professional fees	33,730	22,957	36,352	36,202
Other expenses	68,138	71,657	135,961	231,145
Stock-based compensation	-	-	-	-
Interest income and other	(10,847)	1,348	(2,775	10,079
Net loss	(1,511,836)	(305,848	(982,494	(568,093)
Loss per share				
Basic and diluted	(0.02)	(0.01)	(0.02)	(0.01)
Exploration and evaluation assets	8,729,396	9,583,513	9,527,353	9,369,960
Total assets	10,906,874	11,741,549	12,343,597	13,048,082
Total liabilities	1,576,623	1,300,523	1,266,810	1,174,279
Shareholders' equity	9,330,251	10,441,026	11,076,787	11,873,803

	Q4	Q3	Q2	Q1
	$	$	$	$
Consulting, directors', administrative and management fees	146,750	303,895	221,600	148,319
Impairment of exploration and evaluation assets	-	-	-	-
Professional fees	65,209	65,896	54,809	94,801
Other expenses	281,366	262,451	144,117	195,567
Stock-based compensation	529,451	-	-	713,711
Interest income and other	(5,007)	(23,909)	4,156	1,010
Net loss	(1,017,769)	(608,333)	(424,682)	(1,153,408)
Loss per share				
Basic and diluted	(0.03)	(0.01)	(0.01)	(0.02)
Exploration and evaluation assets	10,125,666	7,863,032	5,298,287	4,423,501
Total assets	13,668,334	13,356,564	8,140,212	8,237,400
Total liabilities	1,071,596	925,949	823,927	503,512
Shareholders' equity	12,596,738	12,430,615	7,316,285	7,733,888

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 IFRS.

Consulting, directors', administrative and management fees decreased in 2012, due to fewer consultants being utilized as well as corporate strategy sessions undertaken in 2011 that did not occur in 2012. The company recorded impairment on its Quebec, Liwale and Iringa assets in 2012. Professional fees were lower in 2012 due to reduced legal costs for financing and regulatory activities as well as fewer exploration agreements being required. Other expenses are higher in 2011 and Q1 2012 due to costs incurred to attend conferences, investor relation costs incurred to promote the company, regulatory fees required for a public company, increased travel costs and project investigation costs. Such costs were significantly reduced after Q1 2012. No stock options were granted in 2012 compared to 2011.

Generally, the expenditures have decreased in 2012 compared to 2011 due to management efforts to control costs and less exploration and corporate activity undertaken in 2012. In 2011, the Company completed its IPO and expenditures were incurred in that regard, as well as efforts undertaken to introduce and promote the Company to investors that were not repeated in 2012.

1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $498,872 as at December 31, 2012 compared to $3,249,762 as at December 31, 2011.

The Company used cash of $787,848 in its operations for the year ended December 31, 2012 compared to using cash of $1,342,824 in its operations for the year ended December 31, 2011. The Company used cash of $2,353,722 on its exploration and evaluation assets and expenditures on plant and equipment for the year ended December 31, 2012 compared to using cash of $5,960,040 on its investing activities for the year ended December 31, 2011. The Company generated cash of $396,378 from financing activities for the year ended December 31, 2012 compared to generating cash of $9,056,628 on its financing activities for the year ended December 31, 2011.

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 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 three months ended March 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.

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

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 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.

On November 10, 2011, the Company issued 2,500,000 common shares to acquire all of the shares of Phosco. The Company has now determined that it would be appropriate to sell the Phosco assets and has hired an Advisor to assist them as outlined above in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year to Date.*

Subsequent to December 31, 2012, 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. 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.

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 year-end.

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year* and the consolidated financial statements for the year ended December 31, 2012 (Note 7 and 9).

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 and plans to utilize the public market 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. 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 its other exploration partners in exploring for its mineral properties to share the costs and risks in exploring them. The Company also considers divestiture of non-strategic assets so it can raise funds and focus its exploration efforts on its core holdings.

Management continues to work with its Advisor on its efforts in regards to the Phosco assets, seeking a potential sale or entering into joint exploration agreements with an interested party. Discussions have been undertaken with interested parties, but no formal offers have yet been received.

All other available options are being pursued in raising additional financings and exploring alternatives. Management is pursuing alternative options to obtain investments for the Wigu Hill Project to maintain its strategy to advance the deposit to the mining and production stage in the short term while further defining a larger deposit. On November 16, 2012, the Company signed a non-binding term sheet with a Strategic Investor ("Investor") whereby the Investor has proposed to provide equity funding at asset level for the further development of Montero's Wigu Hill Project. The terms and conditions are indicative at this stage, and the Investor still has to complete a detailed due diligence, the results of which are subject to approval by the Investor's Executive Management and Board of Directors.

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.

As of December 31, 2012, Montero has 4,655,000 stock options outstanding, exercisable at a weighted average exercise price of $0.32 per share and 10,137,159 warrants outstanding, exercisable at a weighted average exercise price of $0.73 per share. These securities may be a future source of funding depending upon the Company's trading stock price, although there are no assurances that this will occur.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

Montero does not utilize off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

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**

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.

Related party transactions

	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

	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.

1.10 FOURTH QUARTER

Please see 1.4 SUMMARY OF QUARTERLY RESULTS for information on the fourth quarter of 2012.

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 and accounting standards
None.

1.14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, INCLUDING MANAGEMENT OF CAPITAL

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.

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 certain 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.

Risk Management and Financial Instruments

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 primarily 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 fulfil 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 Harmonized Sales Tax and other amounts due from governmental agencies and, as such, management considers the risk with their collection minimal. The cash and cash equivalents is invested in short-term investment certificates for periods less than 90 days. 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, 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.

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.

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, deposits and trade and other payables. Cash and cash equivalents and deposits are measured at face value, representing fair value, and are classified as fair value through profit and loss. Their fair value is in accordance with "Level 1", unadjusted quoted prices in active markets for identical assets. Trade and other receivables are designated as loans and receivables. Trade and other payables are designated as other financial liabilities.

1.15 OTHER MD&A REQUIREMENTS

DISCLOSURES FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The information required on the Company's exploration and evaluation assets are readily available from the Company's consolidated financial statements for the year ended December 31, 2012 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, 2012. The number of common shares outstanding as of the date of this report on April 25, 2013 is 71,031,679 shares.