# MONTERO MINING AND EXPLORATION LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2013

### 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, 2014 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013. 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.

All statements, other than of historical facts included herein, including without limitations, statements regarding potential mineralization, reserves and exploration results and future plans and objectives of the Company are forward looking statement and involve various risks and uncertainties, which are detailed in the Section "Risk Factors" of this MD&A. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.

### 1.2 OVERALL PERFORMANCE

**2013 Year's Highlights**

The Company's 2013 highlights include:

Wigu Hill Rare Earth Element (REE) project in Tanzania:

- Ongoing due diligence, negotiations and discussions with various Strategic Investors are underway to fund the Pre-Feasibility, Definitive Feasibility studies and construction of a Rare Earth Mine and Refinery, with terms and conditions indicative and subject to approval by the Investor's and Montero's Board of Directors.
- The metallurgical initiatives continued successful advancements on the Twiga Target's 1.5 tonne bulk sample of >10% TREO bastnaesite-rich carbonatite undertaken by Mintek (in Johannesburg, South Africa). Mintek's investigations include the cost efficiencies in the mineral separation of REE rich leach solution to prepare pregnant REE rich liquor through Solvent Extraction (SX) testwork that will be concluded with the completion of the Solvent Extraction Pilot Plant.
- The Environmental Impact Assessment Certificate (EIA) granted on 17$^{th}$ April 2013, confirms the successful completion of the Environmental and Social Impact studies. The EIA is an important precursor the Mining Licence application.
- The revised Twiga Target resource estimated a total Inferred Mineral Resource of 1.9 million tonnes at 2.7% grade LREO5 from preliminary and infill drilling (32 boreholes -2,546m to depth of 50m). A sensitivity analysis shows that the Inferred Mineral Resource contains a higher-grade portion of 0.47 million tonnes averaging 5.2% LREO5 at a cut-off grade of 3% LREO5. The revised resource provides the potential to develop a small operation to produce a mechanically sorted concentrate at a grade of 10-15% LREO for sale.

Phosco Project in South Africa:

- Discussions and negotiations continue to sell or joint venture the phosphate assets with marketing groups, investment and exploration companies in South Africa, UK, Australia and Canada, including site field visits.

- The Company concluded a debt settlement agreement on January 3, 2013 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 completed a private placement raising cash of $1,400,000 by issuing 11,200,000 Units, each Unit consisting 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 entered into loan agreements with a company that has a director in common with the Company and with an associate for funds totalling $165,000. The loans are unsecured, bear interest at 12% and are due on May 31, 2014.
- Exploration expenditures of $744,431 were made during the year compared to $2,332,896 for the prior year, with the majority being spent on the Wigu Hill project in Tanzania.
- The Company has made continued efforts to reduce costs during the year and has been successful in reducing the Company's operating expenses from $3,370,466 in the prior year to $922,695 in the current year.
- The Company recorded a net loss of $910,158 ($0.01 per share) for the year ended December 31, 2013 compared to a net loss of $3,368,271 ($0.06 per share) for the year ended December 31, 2012.

**Company Overview**

Montero was incorporated on October 5, 2006 under the laws of British Columbia, Canada. The Company 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 address is Suite 1704, 20 Bloorview Place, Toronto, Ontario M2J 0A6. Phone: 416-840-9197; Fax: 866-688-4671; Web: www.monteromining.com.

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, 2013 the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through revenue from operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities (including the divestiture of non-strategic assets) 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 substantial doubt about the Company's ability to continue as a going concern.

Management has undertaken to reduce operating costs including voluntary fee reductions from management, reduced rent and administrative fees and decreased usage of administrative staff and consultants. As well, management has kept exploration costs to a minimum which include staff reductions and deferred work programs. These efforts will extend the Company's treasury. During the year, management has been successful in concluding a debt settlement agreement related to $643,077 of trade payables, completing a private placement for $1,400,000 and arranging loans for up to $165,000 from related parties. Management is actively pursuing the sale of non-strategic assets which could generate further funding for the Company's operations. In addition, project financing is being pursued for the Company's Wigu Hill project and discussions are underway with Strategic Investors, conducting due diligence to fund the Pre-Feasibility, Definitive Feasibility studies and construction of a Rare Earth Mine and Refinery, with terms and conditions indicative and subject to approval by the Investor's and Montero's Board of Directors.

Management believes that further reductions in operating expenses, funding from potential funding partners, borrowings from directors and management, and further private placements will generate the required funding to maintain operations. Although management is committed and expects to raise additional funding, the timing and the nature of the financing is uncertain and there can be no assurances that this will occur. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

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, and South Africa. 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 several 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 and approved the technical information presented herein.

**Tanzania**

**Wigu Hill Project**

Background:

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 was covered by 2 Prospecting

Licences and covering an area of 55.65km$^2$;(Wigu PL3379: 15.14km$^2$ and Nyarutanga PL4834: 40.51km$^2$) straddling Wigu Hill itself including a contiguous area to the south.

Documents for the areas that required relinquishment and reapplications of the original 2 Wigu Hill licences, covering an area of 86.21km$^2$ in extent are in process with the Tanzanian Ministry of Energy and Minerals. PL4834 lapsed on 9$^{th}$ November 2013 and a new application for the same area of 40.51km$^2$ was submitted in the name of a subsidiary company.

The Prospecting licence PL3379, covering the Wigu Hill Project area was extended for a 4$^{th}$ term of two years effective from July 1, 2012 to June 30, 2014. In common with all mining companies, licences are required to be renewed in order to maintain ownership. Montero regularly reviews its licences and meets the local governmental requirements on the licences it plans to renew. In particular, Montero is in the final stages of completing its application for a Mining Licence which would renew one of the significant Wigu Hill Licences which expires on June 30, 2014. Montero is currently compiling all necessary reports and data for submission of this Mining Licence application, which it expects to complete by May 31, 2014.

Ownership:

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, 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's share of these costs at December 31, 2013 was determined to be $1,277,995 (USD $1,201,575). These expenses 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 required contribution and advised that dilution would occur if payment was not received. As of December 31, 2013, the notice period for receipt of payment had expired and Montero increased its ownership of the Wigu Hill Licences to 82.25%.

Geology and mineralization:

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 (Total Rare Earth Oxides) dominantly the light rare earths which include: Cerium, Lanthanum, Neodymium, Praseodymium and Samarium. Reconnaissance exploration sampling in 2009 and 2010 identified a number of rare earth enriched carbonatite dikes on the eastern and central portions of Wigu Hill. Five target areas have been identified for detailed exploration as follows: Tembo, Twiga, Tumbili, Lower Nyati and Upper Nyati targets.

In 2011, a focussed exploration mapping programme and grab sampling programme was carried out over the full extent of Wigu Hill. The sample results have been combined with the original reconnaissance assay data. The positive results compliment and expand the 2009/2010 reconnaissance exploration results and emphasized the extent of the rare earth mineralization in the project area.

Exploration work:

Exploration work was focussed on trenching activities and associated geological mapping on the Lower Nyati Target in early 2013, and by March activities were cut back. By mid year the project site was placed on a care and maintenance program. The project site is maintained by a team of locally employed security staff operating on a day and night shifts basis. The security staff undertakes the basic maintenance of the camp site and project area infrastructure, such as access roads is carried out. Office work consisted of ongoing work on the geological reports to the Ministry of Energy and Minerals continued.

**Tembo and Twiga Targets**

The exploration of the Twiga and Tembo Targets is at an advanced stage. A preliminary resource was estimated for these targets based on trenching and initial drilling data collected in 2010 (refer news release dated September 12, 2011). This initial exploration was followed by a programme of infill drilling and development of a geological model for the Twiga Target.

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 a NI43-101 compliant technical report finalised on October 24, 2011 (refer to news releases dated September 12, 2011 and October 24, 2011).

Twiga Resource assessment. - The additional funding in early 2013 was partly allocated to the resource assessment work and AMEC focused their attention on the Twiga resource assessment work during Q2 and Q3 of 2013. The model was reviewed and accepted by Montero geologists and AMEC finalized their initial resource calculations.

The updated resource estimate is only for the Twiga Zone, located on the SE ridge of the Wigu Hill carbonatite complex. It is based on data from the initial 15 core boreholes (1,560m) used in the initial resource estimate and new data from infill drilling of 17 boreholes at 25m intervals (986m) completed in

2012. A total Inferred Mineral Resource of 1.9 million tonnes at a grade of 2.7% LREO5 has been estimated from the preliminary and infill drilling of the total 32 boreholes (2,546m) for the Twiga Zone to a depth of 50m. A sensitivity analysis at a cut-off grade of 3% LREO5 has shown that the Inferred Mineral Resource contains a higher-grade portion consisting of 0.47 million tonnes averaging 5.2% LREO5 (refer to news release dated August 6, 2013). The review of the rare earth resources at the Twiga Zone was designed specifically to outline the potential for a smaller, higher grade rare earth resource within the larger resource. This has enabled the Twiga Zone overall resource to be updated independently of the adjacent Tembo Zone.

<u>Bulk sampling activities on the Twiga Target</u> - During 2012, a dedicated team of samplers were allocated the task of opening up the trenches and outcrops on the Twiga Target to expose fresher carbonatite material and then to break up the outcrops so exposed into smaller fresh fragments which could then be selected for specific research or testwork. A small sampling team worked continuously at this sampling programme for a period exceeding 6 months. During this period the quantity of broken rock increased steadily to exceed about 10 tonnes. Of this large accumulation of broken carbonatite, much of the material was low-grade gangue, calcite, dolomite and siderite. The higher grade bastnaesite bearing carbonatite was then sorted out and separated from the gangue material, thereby collecting about 3 to 4 tonnes of high to intermediate grade mineralised carbonatite. Selected amounts of this material were used for metallurgical testwork at Mintek and other metallurgical and analytical facilities.

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.

Suitable sites for blasting have been prepared with plans to take a >5 tonne sample of run of mine mineralised dyke material and waste rock currently on hold.

**Tumbili Target**
Exploration work on the Tumbili Target included detailed mapping, trenching and drilling. By July 2011, 1,525m of core drilling and 1,190m of trenching has been completed. An assessment of the drilling and trenching at Tumbili led to the conclusion that the eastern portion of the target area has relatively poor mineral potential for high grade REE mineralisation (>5% TREO), but the carbonatite breccia in the western portion of the target area is more prospective with graded average values in the range of 1.5 – 3.0% TREO.

In early 2013, mapping in the reopened Tumbili trench (TUM001) over a strike length of 157m confirmed that this area is underlain exclusively by carbonatite breccia, containing fragments of mineralised, bastnasite-rich carbonatite dyke material. The trench was originally only sampled on the uppermost portion and returned the following positive results of 2.79%TREO over 12m and 2.26% TREO over 12m from 2 zones 24m apart in the long trench.

The Tumbili TUM001 trench is evenly mineralised with rare earth oxide mineralisation over the full strike of the trench amounting to 157m. An Innov-X spectrometer was used to assess the distribution of the mineralization along the trench and to compare those values with the data secured from the channel samples that originally had been taken. The data is quantitative and therefore not comparable and confirms the presence of rare earth materials with assay results in the range of 1% to 8% TREO within the carbonatite breccia.

The upside mineral potential at the Tumbili Target is assumed to lie in the area to the west. Exploration activity has not been undertaken here to date, as the higher grade carbonatite dikes on the Nyati Target has been the main focus of the latest exploration.

**Nyati Target**
Geological mapping and rock chip 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 (a total of 227 samples) was done in 3 stages of the available outcrops over a wide area. The assay results of these chip samples returned high TREO values from the well mineralized bastnaesite-rich carbonatites (refer news release October 11, 2011 and April 2012).

A focused program of trenching and core drilling followed from the grab sampling and was guided by the sample assay results. The results from 3 trenches and 5 core boreholes (1,030m) established the Nyati Target as a significant and extensive zone of carbonatite hosted, bastnaesite mineralisation (refer to news release April 2, 2012 and news release dated April 12, 2012).

Road access was extended onto upper reaches of the Nyati Target and new drill pads were prepared for 20 proposed infill and exploration drill holes (5,200m).

Exploration work in 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). Other exploration work included geological mapping as well lines cutting on each of the proposed infill drill lines of the Lower Nyati target. Sampling was undertaken only on the sections where good outcrop occurred. Positive results were returned from this work substantiating the proposed drilling program.

During the 1$^{st}$ quarter of 2013, five of the trenches dug at Nyati, which had been closed, were reopened for remapping and sampling. These were WTRN002, WTRN004, WTRN005, WTRN006 and WTRN007. All the data from the 2012 sampling program was used to prepare 2 x 50kg bulk samples representative of the Nyati Target for flotation testwork. This exercise involved breaking much rock from new outcrops and in so doing exposing new mineralisation. This increased the confidence levels in the grade and continuity of the carbonatite dykes at Lower Nyati. Two 50kg samples with an estimated grade of 3.5% TREO were taken for flotation testwork purposes.

Two new trenches totalling 108m were dug along line PNYT021 and opened up new exposures of mineralised carbonatite. Two additional trenches commenced to the west of WTRN007 encountered deep soil cover and had to be abandoned. All trenching was curtailed in mid-March 2013, just ahead of the seasonal rain.

<u>Road repairs:</u>

Most of the access roads within the project area were rehabilitated during the 1$^{st}$ quarter of 2013, especially the access up the hill to the Nyati Target area. This work involved filling in of wash-aways and re-developing the drainage channels to guide water away from the roadways and reduce wash-aways. The camp entrance road, which was damaged during the previous rains, was also repaired in preparation for the 2013 rain season.

The rehabilitation programme included the clearing and repair of the drill pads that had been excavated early in 2012 to prepare for a drilling program which was postponed. The drill pads had suffered some rain damage and were partly to severely overgrown in places. The vegetation was cleared and any wash ways repaired and levelled to facilitate easy access.

The Wigu Hill camp was closed for the rain season and the geological staff undertook data review and consolidation work at the Dar es Salaam offices. This also involved checking information in the exploration database being used to finalise the Twiga Target's resource assessment.

Environmental studies:

Work and reporting on the environmental impact assessment program at Wigu Hill was undertaken by the Tanzanian Environmental consultants, MTL Consulting Company Ltd ("MTL") at the end of 2012, submitted to the NEMC ("National Environmental Management Council"), the governmental environmental agency, for review and acceptance. All of the baseline environmental reports compiled by the consultants for Montero were assessed by MTL and the relevant data incorporated into an Environmental Impact Assessment ("EIA") study. MTL undertook a Social Impact Assessment of the area surrounding the Wigu Hill Project and the information was compiled into the full Environmental and Social Impact Assessment Report ("ESIA") that was submitted on 19th December 2012. An Acceptance certificate was issued on 17th April, 2013.

Metallurgical testwork:

During 2011 and 2012 extensive metallurgical test work was undertaken by Mintek in Johannesburg on the high grade (>10% TREO), rare earth rich carbonatite samples from the Tembo and Twiga Targets. The initial orientation tests were followed by a programme of bench scale leach tests. With the results from the 2nd and 3rd phase of the hydro-metallurgical testwork program, including monitoring and modification of procedures, resulted in an optimised leaching process which produced a final mixed rare earth solution. From this, a mixed rare earth and cerium salt can be prepared (refer to news release dated March 5, 2012).

The leach testwork report using the optimisation parameters defined by Mintek did not meet all the required objectives although the report was successful in quantifying all the optimization requirements for the leach process. The testwork still requires an additional stage of assessment through undertaking 3 x 50kg bulk leaches under the optimized conditions defined by Mintek, to confirm the results. During the 3rd quarter of 2013, Mintek commenced work on the three bulk leach tests each on 50kg samples of bastnaesite-rich material from Wigu Hill to assess in detail the leaching process identified and tested successfully in 2011/12. The bulk leach tests were completed in December 2013 and the samples taken during the testwork are being processed through the Mintek hydrometallurgical laboratories. The data will be assessed and a report compiled once the results have been processed.

In 2013, the Company entered into an agreement with Mintek allowing for a 1,500km sample with an estimated grade of >10% TREO mineralised carbonatite from the Wigu Hill Project to be used in the preparation of TREO solutions for solvent extraction and refining testwork purposes at Mintek. A Solvent Extraction Pilot Plant is being constructed by Mintek in Johannesburg, and the sample would enable Mintek to test the procedure to isolate individual rare earth elements through solvent extraction and test new techniques with the objective of reducing operating and capital costs and increasing the efficiency of rare earth separation.

The 1,500kgs sample was prepared by the field team who selectively collected carbonatite material from that broken at the Twiga Target. The material was transported to Dar es Salaam and stored at the Company's offices and further dispatched by sea to Durban. The shipping container containing the sample was custom cleared in Durban, transported by road to Johannesburg and delivered to Mintek in mid-December. The material is now being prepared for testwork at Mintek. This work has been arranged to be conducted by Mintek with no cost implications to Montero and Mintek shall retain all information from such testwork.

Other metallurgical testwork included flotation testwork. In January 2013, a comprehensive set of bench scale tests was undertaken at SGS Mineral Services in Lakefield, Canada in January 2013 on a 20kg bulk sample with positive preliminary testwork results. These results indicate that at least a 2x upgrade of the rare earths as measured from the cerium content can be achieved in rougher stage flotation tests. This result is very positive in that it is a preliminary test result and requires optimisation (see news release dated July 29, 2013). A 50kg composite sample collected on the Lower Nyati Target was sent to SGS Lakefield in Toronto, Canada for further testwork.

Several pulp samples from Wigu Hill were sent to PAnalytical (Pty) Ltd. in Randburg, South Africa where they were analyzed by PAnalytical to calibrate a new Epsilon 5 Energy Dispersive X-ray Fluorescence Instrument. This instrument is being explored as an analysis method for determining REE grade of Wigu Hill ore materials. Montero has received a report from PAnalytical summarizing the results of this calibration study.

Several proposals were received from Engineering Consulting companies in South Africa with experience in REE metallurgy outlined the pricing estimates to undertake a Pre-Feasibility Study and a Definitive Feasibility Study. These proposals have been assessed and are used as appropriate in presentations to potential funding and investing partners.

Quarterly geological exploration reports during 2013 for the Wigu Hill (PL3379) and Nyarutanga (PL4834) licence areas were compiled and submitted to the Tanzanian Ministry of Energy and Minerals to comply with the Mining law's reporting requirements.

As at December 31, 2013, the Company had incurred cumulative acquisition costs of $1,323,492 and cumulative exploration and evaluation costs of $8,589,163 for a total investment of $9,912,655 on the Wigu Hill Project.

**South Africa**

**<u>Phosco Project</u>**

On November 18, 2011 (the "Effective Date"), the Company's subsidiary, Montero Projects Limited ("Montero Projects") agreed to acquire the shares in Eurozone Investments Limited ("Eurozone") which holds interests in subsidiary companies that hold 4 phosphate exploration projects in South Africa (hereafter, "Phosco"). Montero Projects paid an advance of $101,700 (USD $100,000) and issued 2,500,000 common shares of Montero and completed the acquisition of Eurozone.

An additional 1,000,000 common shares of Montero may have had to be issued as consideration if a mining industry compliant report ('the "Report") was obtained, indicating a phosphate inferred resource on certain prospecting rights of one of the Phosco assets (the "Bierkraal Project"). The Company had 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 had not obtained the Report or given notice to the vendor, Celtic Trust Company ("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. On May 18, 2013, the Company and Celtic agreed to complete the transfer of the shares of the subsidiary that holds the Bierkraal Project from Montero to Celtic for nil consideration and have also agreed that no additional shares will be issued. The Company has therefore recorded an impairment charge for initial due diligence and exploration costs related to the Bierkraal Project totaling $32,014 for the year ended December 31, 2013.

The Phosco assets initially covered the four phosphate exploration projects, namely: Phillips Kraal, Duyker Eiland and Lamberts Bay in the Western Cape and Bierkraal in the Northwest Province. Management believes that the return of the Bierkraal Project to Celtic does not have a significant impact on the valuation of the remaining Phosco assets as this Project was a relatively minor part of the original acquisition.

On March 22, 2012 the Company engaged AltaCorp Capital Inc. ("Advisor") to assist them in completing a sale of its Phosco assets. 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. Since the Phosco assets were not sold on or before June 22, 2013, there are no amounts payable to the Advisor on any eventual sale of the Phosco assets. Although management is committed and expects to sell the Phosco assets, there can be no assurances that a sale will take place and the timing of such a sale is uncertain.

The Company continues with the process of selling or joint venturing the Phosco assets and discussions and negotiations are ongoing with marketing groups, investment and exploration companies in South Africa, UK, Australia and Canada. Several site visits have been undertaken by the interested parties during 2013 and as late as February 2014, however a conclusive deal has not been reached.

The Company continued with the strategy to acquire or joint venture additional Prospecting Rights in the vicinity of the Montero phosphate assets in the Western Cape, with one probable joint venture ending and various others continuing with due diligence, discussions and negotiations.

**Duyker Eiland Project**
A Mineral Resource Estimate (independent NI43-101 compliant report) of the sedimentary phosphate deposit at the Duyker Eiland project was completed in late 2011. A total Inferred Mineral Resource of 32.8 million tonnes at a grade of 7.15% $P_2O_5$ has 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 Preliminary Economic Assessment ("PEA") report of the Duyker Eiland Project was completed by Turgis Consulting (Pty) Ltd., as an independent NI43-101 compliant report in 2012 (refer news releases February 28, 2012 and April 13, 2012). The PEA is preliminary in nature and includes the Inferred Mineral Resources that are considered geologically too speculative to apply the economic considerations that would enable the resource to be categorized as Mineral Reserves.

Selected environmental baseline studies were undertaken and additional metallurgical testwork between 2012 and 2013 including the amenability of the phosphate mineralisation at Duyker Eiland to different flotation reagents was analysed.

The comprehensive geological reports were submitted early in 2012 to the Department of Mineral Resources, Western Cape ("DMR") in order to fulfill the requirements for renewal of the Duyker Eiland and Phillips Kraal Prospecting Rights. A site visit by personnel from the Mine Economics section of the DMR followed the successful granting of the renewal period on the Duyker Eiland and Phillips Kraal licences for 3 years to March 2016. The Lamberts Bay licence is in process of renewal with the DMR.

As of December 31, 2013, Montero has spent a total of $1,408,677 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.

During the year ended December 31, 2013, the Company decided not to pursue exploration on this claim area and recorded an impairment of exploration and evaluation assets of $171,756.

## 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. Further discussions on risks associated with the Company's operations are elaborated below. Readers should review and consider the financial, operational, permitting and environmental risk factors faced by the Company, which are common to junior exploration companies.

**Industry and economic factors affecting the Company**
The Company's future performance is largely tied to the financial markets related to junior exploration companies, which is often cyclical and is currently very unfavorable. The Company continuously monitors several economic factors including the uncertainty regarding Rare earths and phosphate prices and the availability of equity financing for the purposes of mineral exploration and development. The Company's future performance is largely tied to the development of its current mineral property interests and the

overall financial markets. Financial markets relating to commodities are likely to continue to be volatile reflecting ongoing concerns about the global economy and potential sovereign defaults throughout the world. Companies worldwide have been affected negatively by these trends. As a result, the Company may have difficulties raising equity financing for the purposes of mineral exploration and development, particularly without excessively diluting the interests of its current shareholders.

With continued market volatility expected, the Company's current strategy is to continue to conduct limited exploration work on its properties until access to capital for junior mining companies becomes available and to seek out other prospective business opportunities including entering into option arrangements and/or joint ventures. The Company believes that this focused strategy will enable it to maintain momentum on key initiatives. These trends may limit the Company's ability to develop and/or further explore its Tanzanian properties, and/or other property interests that could be acquired in the future. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short-term operating and longer-term strategic decisions.

**Exploration, Development and Operating Risks**
The exploration for and development of mineral deposits is a speculative venture involving a high degree of risk. Even a combination of careful evaluation, experience and knowledge may not eliminate such risk. While the discovery of a commercially viable ore body may result in substantial rewards, few mineral properties which are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides, and the inability of the Company to obtain suitable machinery, equipment or labour are all risks involved with the conduct of exploration programs and the operation of mines. Substantial expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site, and substantial additional financing may be required.

It is impossible to ensure that the exploration or development programs planned by Montero will result in a profitable commercial mining operation. The decision as to whether a particular property contains a commercial mineral deposit and should be brought into production will depend on the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the particular attributes of the deposit, such as size, grade, metallurgical characteristics, and proximity to infrastructure; (ii) metal prices, which are highly cyclical; (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, permitting, importing and exporting of minerals and environmental protection; (iv) ongoing costs of production; (v) availability and cost of additional funding; and (vi) local community and landowner opposition to access mineral rights. The exact effect of these factors cannot be accurately predicted, but one or any combination of these factors may result in Montero not receiving an adequate return on invested capital.

**Additional Capital**
The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of Montero. The development and exploration of the Company's properties will require substantial additional financing. Failure to obtain such financing may result in delaying or indefinite postponement of exploration, development or production on any or all of Montero's properties or a loss of a property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional financing is raised by Montero through the issuance of securities from treasury, control of Montero may change and security holders may suffer additional dilution.

**Environmental Risks and Hazards**
All phases of Montero's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which Montero holds interests which are unknown to Montero at present and which have been caused by previous or existing owners or operators of the properties or by current or previous surface rights owners. Government approvals and permits have been submitted as required and future approvals will be required in connection with Montero's operations. To the extent such approvals are required and not obtained, Montero may be curtailed or prohibited from continuing its mining operations or from proceeding with the planned exploration or development of the mineral properties in which it has an interest. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in the exploration or development of exploration properties may be required to compensate those suffering loss or damage by reason of such parties' activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on Montero and cause increases in exploration expenses or capital expenditures or require abandonment or delays in development of new exploration properties.

**Permitting**
Montero's current and future operations will require approvals and permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of such approvals and permits for the existing operations or additional approvals or permits for any possible future changes to operations. Prior to any development on any of its properties, Montero must receive permits from appropriate governmental authorities. There can be no assurance that Montero will obtain or continue to hold all permits necessary to develop or continue operating at any particular property.

**Title to Mining Licences**
The validity of mining licences generally can be contested, and although Montero has taken steps to acquire the necessary title to its mining licences, some risk exists that title to such licences may be defective. In order to maintain the mining licences, Montero must incur certain minimum exploration expenditures annually or risk forfeiture of the mining licences and any such expenditure made to such time.

**Uninsurable Risks**
In the course of exploration, development and production of mineral properties, several risks and, in particular, unexpected or unusual geological or operating conditions, may occur. It is not always possible to fully insure against such risks, and the Company may decide not to insure such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in value of the securities of Montero. The

Company is not insured against environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Montero periodically evaluates the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance. Without such insurance, and if Montero becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds available to Montero to pay such liabilities and result in bankruptcy. Should Montero be unable to fund fully the remedial cost of an environmental problem it might be required to enter into interim compliance measures pending completion of the required remedy.

**Infrastructure**
Development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, and government or other interference in the maintenance or provision of such infrastructure could adversely affect Montero's operations, financial condition and results of operations.

**Market Factors and Volatility of Commodity Prices**
The marketability of mineralized material which may be acquired or discovered by Montero will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations in the prices of minerals sought, which are highly volatile, the proximity and capacity of natural resource markets and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, permitting, land tenure, land use, importing and exporting of minerals and environmental protection. The effect of these factors cannot be accurately predicted, but these factors may result in Montero not receiving an adequate return on invested capital. Prices of certain minerals have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the control of Montero. Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by Montero would have a material adverse effect on Montero, and could result in the suspension of exploration or development of mining operations by Montero.

**Competition**
The resource and mining exploration industry is intensely competitive in all of its phases. As a result of this competition, some of which is with large, established mining companies with substantial capabilities and greater financial and technical resources than Montero, the Company may be unable to acquire additional mineral properties on terms it considers acceptable, or continue to explore and develop its existing properties.

**Exchange Rate Fluctuations**
Exchange rate fluctuations may adversely affect Montero's financial position and results. The Company does not currently hedge or otherwise mitigate its foreign currency risks.

**Foreign Operations**
The Company's property interests are located in Tanzania, South Africa and Canada, and are subject to the respective jurisdiction's laws and regulations. The Company believes the present attitude of Tanzania and South Africa to foreign investment and mining to be favourable but investors should assess the political risks of investing in a foreign country. Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company.

**Key Executives**
Montero is dependent on the services of key executives and a small number of highly skilled and experienced consultants and personnel. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of Montero, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations. Montero does not currently carry any key man life insurance on any of its executives.

**Conflicts of Interest**
Certain of the directors and officers of Montero also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Montero will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

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, 2013 the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through revenue from operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities (including the divestiture of non-strategic assets) 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 substantial doubt about the Company's ability to continue as a going concern.

Management has undertaken to reduce operating costs including voluntary fee reductions from management, reduced rent and administrative fees and decreased usage of administrative staff and consultants. As well, management has kept exploration costs to a minimum which include staff reductions and deferred work programs. These efforts will extend the Company's treasury. During the year, management has been successful in concluding a debt settlement agreement related to $643,077 of trade payables, completing a private placement for $1,400,000 and arranging loans for up to $165,000 from related parties. Management is actively pursuing the sale of non-strategic assets which could generate further funding for the Company's operations. In addition, project financing is being pursued for the Company's Wigu Hill project and discussions are underway with Strategic Investors, conducting due diligence to fund the Pre-Feasibility, Definitive Feasibility studies and construction of a Rare Earth Mine and Refinery, with terms and conditions indicative and subject to approval by the Investor's and Montero's Board of Directors.

Management believes that further reductions in operating expenses, funding from potential funding partners, borrowings from directors and management, and further private placements will generate the required funding to maintain operations. Although management is committed and expects to raise additional funding, the timing and the nature of the financing is uncertain and there can be no assurances that this will occur. 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, 2013, 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 $744,431 for the year ended December 31, 2013 ($2,332,896 for the year ended December 31, 2012).

The Company's operating costs for the year ended December 31, 2013 decreased significantly compared to the prior comparative year ended December 31, 2012, primarily due to management's efforts to control and reduce costs. Consulting, directors, administrative and management fees were lower due to reduced consulting personnel and a voluntary decrease in fees for management personnel. General and administrative expenses and other expenses have decreased due to management efforts to reduce costs. Impairment of exploration and evaluation assets was significantly lower in the current year than the prior year. Professional fees are also lower due to less exploration activities undertaken in the current year requiring any agreements which would require legal services. Stock based compensation is $69,264 for the current year compared to $Nil in the prior year as no stock options were granted then.

At December 31, 2013, the Company had cash and cash equivalents on hand of $24,406 compared to $498,872 on hand at December 31, 2012. Subsequent to the year-end, the Company received additional funds of $100,000 pursuant to loan agreements. 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 and South Africa.

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 | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Consulting, directors', administrative and management fees | $ 341,886 | $ 791,960 | $ 820,564 |
| Depreciation | 31,684 | 41,287 | 17,676 |
| Impairment of exploration and evaluation assets | 203,770 | 1,942,364 | - |
| Professional fees | 72,359 | 129,241 | 280,715 |
| Project investigation costs | 13,644 | 11,281 | 136,029 |
| Shareholder and regulatory | 102,524 | 268,608 | 368,539 |
| Stock-based compensation | 69,264 | - | 1,243,162 |
| Other operating costs | 87,564 | 185,725 | 361,257 |
| Interest income and other | (12,537) | (2,195) | (23,750) |
| Net (loss) | (910,158) | (3,368,271) | (3,204,192) |
| Basic and diluted (loss) per share | $ (0.01) | $ (0.06) | $ (0.07) |
| | | | |
| Exploration and evaluation assets | 9,912,655 | 8,729,396 | 10,125,666 |
| Total assets | 11,427,314 | 10,906,874 | 13,668,334 |
| Total liabilities | 906,479 | 1,576,623 | 1,071,596 |
| Shareholders' equity | 10,520,835 | 9,330,251 | 12,596,738 |

## 1.4 RESULTS OF 2013 OPERATIONS

During the year ended December 31, 2013, Montero continued exploration work on its Wigu Hill property in Tanzania, albeit at a reduced pace. Total cash exploration costs incurred during the year ended December 31, 2013 totalled $744,431 (year ended December 31, 2012 - $2,332,896), which was spent primarily on the Wigu Hill Project.

The Company's operating expenses decreased significantly in most categories during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to management's efforts to reduce and control costs and reduced Company operations. Significant changes in these expenses are outlined below.

**Consulting, directors', administrative and management fees** decreased from $791,960 for the year ended December 31, 2012 to $341,886 for the year ended December 31, 2013 due to reduced use of consulting personnel, reduced activity requiring less administrative support and a voluntary fee reduction paid to management personnel.

**General and administrative expenses** decreased from $81,944 for the year ended December 31, 2012 to $37,114 for the year ended December 31, 2013 due to management's efforts to control and reduce costs.

During the year ended December 31, 2013, the Company recorded an **impairment** charge of $203,770 on its exploration and evaluation assets in Canada and assets held for sale in South Africa compared to $1,942,364 on its exploration assets in Canada and Tanzania during the year ended December 31, 2012.

**Professional fees** decreased from $129,241 for the year ended December 31, 2012 to $72,359 for the year ended December 31, 2013 due to reduced legal fees required for regulatory and various exploration agreements in the current year compared to the prior comparative year.

**Shareholder and regulatory costs** decreased from $268,608 for the year ended December 31, 2012 to $102,524 for the year ended December 31, 2013 due to management's efforts to reduce spend in this area through less use of consultants, and fewer conferences and promotional activities being undertaken.

**The Company's net loss** for the year ended December 31, 2013 was $910,158, $0.01 per share, compared with a net loss of $3,368,271, $0.06 per share for the year ended December 31, 2012.

**Montero's cash and cash equivalents** was $24,406 at December 31, 2013 compared to $498,872 at December 31, 2012. Subsequent to the period-end, the Company received an additional $100,000 pursuant to its loans payable. 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* and the consolidated financial statements for the year ended December 31, 2013 (Note 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. Since the Company intends to sell the Phosco assets in South Africa, these costs are reflected as a current asset reported as *Held for Sale Assets* totaling $1,408,677 as at December 31, 2013 ($1,532,077 as at December 31, 2012).

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

**As at December 31, 2013**

| | **Canada** | **Tanzania** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Plant and equipment | - | 73,271 | 73,271 |
| Exploration and evaluation assets | - | 9,912,655 | 9,912,655 |
| **Total non-current assets** | **-** | **9,985,926** | **9,985,926** |

**As at December 31, 2012**

| | Canada | Tanzania | 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** |

## 1.5 SUMMARY OF QUARTERLY RESULTS

| | 2013 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| | $ | $ | $ | $ |
| Consulting, directors', administrative and management fees | 60,994 | 64,693 | 62,691 | 153,508 |
| Impairment of exploration and evaluation and Held for Sale assets | 171,756 | - | - | 32,014 |
| Professional fees | 12,675 | 18,152 | 25,361 | 16,171 |
| Other expenses | 26,156 | 49,427 | 71,359 | 88,474 |
| Stock-based compensation | - | - | 69,264 | - |
| Interest income and other | (10,414) | 487 | (969) | (1,641) |
| Net loss | (261,167) | (132,759) | (227,706) | (288,526) |
| Loss per share | | | | |
| Basic and diluted | (0.01) | (0.01) | (0.01) | (0.01) |
| Exploration and evaluation assets | 9,912,655 | 9,662,238 | 9,787,116 | 9,278,500 |
| Total assets | 11,427,314 | 11,249,973 | 11,604,880 | 11,525,682 |
| Total liabilities | 906,479 | 781,683 | 771,340 | 825,191 |
| Shareholders' equity | 10,520,835 | 10,468,290 | 10,833,540 | 10,700,491 |

| | 2012 | | | |
|---|---|---|---|---|
| | **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 |

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.

Consulting, directors', administrative and management fees decreased in 2013 and 2012, due to fewer consultants being utilized, voluntary reductions in fees paid to management, as well as non-recurring corporate strategy sessions and recruitment costs previously undertaken. The company recorded impairment on its Quebec uranium assets and Tanzanian Liwale and Iringa assets in 2012, and in 2013 impairment on its remaining property in Quebec and on a Phosco asset being returned to the vendor. Professional fees are lower in 2012/2013 due to reduced legal costs for regulatory activities as well as fewer exploration agreements being required. Other expenses are lower in 2013 due to management's efforts to reduce and control costs. Stock options were granted in 2013 resulting in stock-based compensation expense.

Generally, the expenditures have decreased in 2013 due to management efforts to control costs (including voluntary reductions in fees paid to management) and less exploration and corporate activity undertaken.

## 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $24,406 as at December 31, 2013 compared to $498,872 as at December 31, 2012.

The Company used cash of $594,092 in its operations for the year ended December 31, 2013 compared to using cash of $787,848 in its operations for the year ended December 31, 2012. The Company used cash of $744,431 on its exploration and evaluation assets and expenditures on plant and equipment for the year ended December 31, 2013 compared to using cash of $2,353,722 on these investing activities for the year ended December 31, 2012. The Company generated cash of $882,275 on its financing activities for the year ended December 31, 2013 compared to generating cash of $396,378 on its financing activities for the year ended December 31, 2012.

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.

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 $66,378 and other share issued costs of $46,681 for total cash share issue costs of $113,059. In addition, the Company 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.

On November 29, 2013, the Company entered into loan agreements for funds totalling $165,000 with a company which has a director in common with the Company and with an associate. The loans bear interest at 12% per annum and are due on May 31, 2014. As of December 31, 2013, the Company had received $65,000 pursuant to these loan agreements and subsequent to year-end, an additional $100,000 was received pursuant to these loan agreements.

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, 2013 (Note 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 or joint ventures of non-strategic assets so it can raise funds and reduce the risks associated with related exploration programs.

Management has undertaken to reduce operating costs including voluntary fee reductions from management, reduced rent and administrative fees and decreased usage of administrative staff and consultants. As well, management has kept exploration costs to a minimum which include staff reductions and deferred work programs. These efforts will extend the Company's treasury. Earlier in the year, the Company raised funds through a private placement and also settled debts with the issue of common shares which also extended the Company's cash. The details of these transactions are described above.

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. Various forms of financing is being pursued for the Wigu Hill project and discussions are underway with Strategic Investors, conducting due diligence to fund the Pre-Feasibility, Definitive Feasibility studies and construction of a Rare Earth Mine and Refinery, with terms and conditions indicative and subject to approval by the Investor's and Montero's Board of Directors. Management continues its efforts to sell its Phosco assets which could generate further funding for the Company's operations.

Management believes that further reductions in operating expenses, funding from potential funding partners, borrowings from directors and management, and further private placements will generate the required funding to maintain operations. Although management is committed and expects to raise additional funding, the timing and the nature of the financing is uncertain and there can be no assurances that this will occur.

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, 2013, Montero has 5,560,000 stock options outstanding, exercisable at a weighted average exercise price of $0.27 per share and 11,731,020 warrants outstanding, exercisable at a weighted average exercise price of $0.24 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 | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| *Compensation of directors* | | |
| Short-term benefits | 32,000 | 55,481 |
| Share-based payments | 16,307 | - |
| | 48,307 | 55,481 |
| *Compensation of key management personnel* | | |
| Short-term benefits | 228,772 | 864,982 |
| Share-based payments | 34,533 | - |
| | 263,305 | 864,982 |
| **Total remuneration of directors and key management personnel** | **311,612** | **920,463** |

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 | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| *Exploration and evaluation asset transactions* | | |
| Geological consulting | 20,678 | 78,720 |
| Other | 46,561 | 67,891 |
| Total exploration and evaluation asset transactions | 67,239 | 146,611 |
| *Operating expense (income) transactions* | | |
| Consulting, directors', administrative and management fees | 80,183 | 95,514 |
| General and administrative | 12,000 | 19,000 |
| Project investigation costs | - | 3,000 |
| Shareholder and regulatory | 12,269 | 38,984 |
| Interest and other income | (14,172) | - |
| | 90,280 | 157,398 |
| **Total trading transactions with related parties** | **157,519** | **304,009** |

### Related party balances

| | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| | **$** | **$** |
| **Due to related parties** | **432,908** | **971,103** |

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 2013.

## 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 year. 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, and 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 local sales tax refunds 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. The Company has a fixed interest rate on its loans payable. The effect of changes in interest rates is not significant to the Company.

*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, 2013, 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.

## 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, 2013 and therefore are not required to be repeated here.

### DISCLOSURE OF OUTSTANDING SHARE DATA

The information on the Company's share capital including numbers of shares outstanding, details of any conversion features, number of shares issuable on conversion of stock options and warrants, etc. are detailed in the Company's consolidated financial statements for the year ended December 31, 2013. The number of common shares outstanding as of the date of this report on April 25, 2014 is 71,031,679 shares.

### Cautionary Note Regarding Forward-Looking Information

Except for statements of historical fact relating to Montero, certain information contained in this MD&A constitutes "forward-looking information" under Canadian securities legislation.

Forward-looking information estimates and statements that Montero's future plans, objectives and goals, including words to the effect that Montero or management expects a stated condition or result to occur. Forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Since forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting; the possibility that future exploration results will not be consistent with the Company's expectations; timing and availability of external financing on acceptable terms and in light of the current decline in global liquidity and credit availability; the uncertainty of conducting activities within a joint venture structure; currency exchange rates; government regulation of mining operations; failure of equipment or processes to operate as anticipated; risks inherent in mineral exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations; and uncertain political and economic environments. Although management of Montero has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Additional disclosures pertaining to the Company's technical report, management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.