MONTERO MINING AND EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2014

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 28, 2015 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014. 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

2014 Year's Highlights

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

- Retention licence – Montero has been granted a Retention Licence relating to the Wigu Hill Project (PL3379) which is valid for five years.
- Hydrometallurgical testwork – leaching testwork results made available by Mintek in an assessment report gave positive recoveries and the final report was received in March 2015.
- Solvent extraction (SX) pilot plant – the 1.5 tonne bulk sample of the Wigu Hill mineralised carbonatite is ready for the testwork program proposed by Mintek in South Africa. Mintek will investigate ability to produce individual rare earth salts or metals the related cost efficiencies in the mineral separation of REE rich leach solution through to the preparation of pregnant REE liquor and the solvent extraction process. Mintek has finalised the construction of its pilot plant and a refining testwork program will be undertaken once access is available to this newly established facility.
- Impairment – Montero has reviewed the status of this Project and has decided to record an impairment charge of $9,674,088 to reflect the current challenging world markets for REE, which in turn lead to difficulty in raising funds to further advance the Project at this time._.

Phosco Phosphate Project in South Africa:

- Funding of prefeasibility and bankable feasibility study - The Company entered into a letter agreement with Ovation Capital that will finance these studies for a 10% and 20% interest respectively, in the phosphate assets in South Africa for a total potential ownership of 30% if the studies are completed within 24 months of signing a definitive agreement. The definitive agreement was completed on March 2, 2015.
- Montero decided not to pursue exploration in one of the licence areas and recorded an impairment charge of $102,292 relating to this area.

- During the year, the Company entered into further loans payable to companies with a common director totalling $130,000. Subsequent to the year-end, further amounts totalling $79,326 were received in regards to these loans payable.

- Exploration expenditures of $125,437 were completed during the year compared to $744,431 for the prior comparative year, which were spent on the Wigu Hill project in Tanzania and the Phosco project in South Africa.

- The Company has continued to reduce costs during the year and reduced the Company's cash operating expenses (excluding impairment, depreciation and stock-based compensation expense) from $617,977 in the prior comparative year to $284,789 in the current year.

- The Company recorded a net loss of $10,069,387 ($0.14 per share) for the year ended December 31, 2014 compared to a net loss of $910,158 ($0.01 per share) for the year ended December 31, 2013. The increase in the loss is due to an impairment charge of $9,776,380 in the current year compared to $203,770 in the prior comparative year.

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 International Financial Reporting Standards ("IFRS") applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2014 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 substantial doubt about the Company's ability to continue as a going concern. When further funds are required, they will be financed through a private placement of common shares or by debt instruments. Subsequent to the year-end, the Company received amounts totalling $79,326 of loans payable.

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. Management has kept exploration costs to a minimum which include staff reductions and deferred work programs, as well as the deferral of payments to management and elimination of director fees to Montero's directors. These efforts will extend the Company's treasury. A small compliment of Tanzanian staff has been retained on site to ensure security of the camp site and the project area. They are also involved with routine maintenance of the camp and environmental protection activities to protect the company's assets.

Management believes that reductions in operating expenses, funding from potential 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, evaluation, acquisition, evaluation, exploration and development of quality mineral properties in Africa. The primary focus is rare earth elements (REE) and phosphates in Tanzania and South Africa, 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 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 brought into production, although there are no assurances that this will occur. These can be acquired through assessment of projects offered to the Company, literature research or conceptual models. The appropriate exploration/development strategies for each style of deposit and mineral occurrences with time frame and key decision points throughout the year are applied. During periods where the Company's cash resources are limited and the markets are not receptive to financing, the Company continues with minimum exploration requirements on the 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, 68 kms south of Morogoro, the nearest major regional center (straight line distances) and 12 kms by road from Kisaki village on the Tazara railway line to Dar es Salaam. The project area of 15.14 km^2, straddles the major extent of Wigu Hill (Retention licence RL0016/2015, valid for 5 years from February 2015). The surrounding licence area of 83km^2, is an area of 28.31 km^2 issued as Prospecting licence PL10080 in August 2014 and the

remaining area of 54.69 km^2 is in application process of either transfer, in application or renewal at the Ministry of Energy and Minerals of Tanzania).

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, 2014 was determined to be $1,410,384 (USD $1,215,743). 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. The notice period for receipt of payment had expired and Montero increased its ownership of the Wigu Hill Licences to 82.25%. Additional exploration costs have been incurred since Montero increased its ownership and its ownership may increase by providing further notice to RSR.

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 has been granted a Retention Licence on its Wigu Hill Project which is valid until February 13, 2020.

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 and include: Cerium, Lanthanum, Neodymium, Praseodymium and Samarium.

The exploration work (mapping and grab sampling programs) to 2011 identified a number of rare earth enriched carbonatite dikes across the main extent of Wigu Hill. A number of targets were initially listed and then subsequently consolidated into 7 definitive target areas. Exploration and evaluation work was initially focused on the eastern and central portions of Wigu Hill within five of the target areas identified: Tembo, Twiga, Tumbili, Lower Nyati and Upper Nyati targets.

Exploration, including surface sampling, trenching and core drilling work on the Lower Nyati Target area identified the potential to outline a theoretical/potential resource of 20Mt at 2-3% TREO, with adequate infill drilling. However, in mid-2013, the project was placed on a care and maintenance program and this assessment work could not be implemented. A team of locally employed security staff were retained to maintain the camp, site area and infrastructure.

A preliminary resource estimation was undertaken on the advanced staged Tembo and Twiga Targets based on trenching and initial core drilling data collected in 2010/2011 (refer news release September 12, 2011). The exploration data to date for these two target areas was incorporated into a geological model prepared by AMEC Earth & Environmental UK Ltd. ("AMEC"). This was defined in the NI43-101 compliant technical report in October 2011 (refer news releases September 12, 2011 and October 24, 2011).

In 2013 the Twiga Target resource estimation was reported independently of the Tembo Zone. A total Inferred Mineral Resource of 1.9 million tonnes at a grade of 2.7% Light Rare Earth Oxide (LREO5) has been estimated from the preliminary and infill drilling of 32 boreholes (2,546m) for the Twiga Zone using a cut-off grade of 3% LREO5. This was 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). This concluded that the Inferred Mineral Resource contains a higher-grade portion of 0.47 million tonnes averaging 5.2% LREO5 to a depth of 50m (refer news release August 6, 2013). This shallow higher-grade rare earth resource on the Twiga Target outlined the potential for a small mining operation within the larger resource.

Representative, high grade, REE-rich carbonatite material from the Twiga Target's trenches and outcrops was selected for research and metallurgical testwork. Sorting of ~10 tonnes of material with high grade bastnaesite bearing carbonatite separated from the gangue material resulted with 3 to 4 tonnes of high to intermediate grade mineralised carbonatite stockpiled and used for metallurgical testwork at Mintek and other metallurgical and analytical facilities.

Turgis Consulting of South Africa ("Turgis") conducted an independent technical 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 dike material and waste rock are currently on hold.

Exploration work at Tumbili Target included detailed mapping, trenching (1,190m) and core drilling (1,525m). Results from the trenching concluded that the carbonatite breccia in the western portion of the target area is more prospective for rare earth mineralisation with dike material grading >5% TREO with average grade values in the range of 1.5 – 3.0% TREO. The mineral potential at the Tumbili Target is assumed to lie in the area to the west where only limited exploration work has been undertaken to date.

The exploration work at the Nyati Target (upslope from Tumbili Target) of trenches and boreholes (1,030m) established a significant and extensive zone of carbonatite hosted, bastnaesite mineralisation (refer news release April 2, 2012 and April 12, 2012). High TREO values from the bastnaesite-rich carbonatites dike swarms over a significant area was reported (refer news release October 11, 2011 and April 3, 2012). Exploration work on the Lower Nyati Target illustrated the continuity of mineralization as outlined by the extensive grab sampling and earlier trenching results. These were substantiated in depth by the positive drilling results and further substantiated with additional trench results (refer news release June 13, 2012) all of which indicate the potential for a bulk tonnage target. In a follow-up program in 2013, 5 trenches were re-opened for mapping and sampling. Two representative 50kg bulk samples (estimated grade of 3.5% TREO) were obtained for flotation testwork, which involved the breaking of rock from new outcrops and exposing new mineralisation and resulted in increased confidence in the grade and continuity of the carbonatite dikes. Based on these results, a proposed core drilling program of 20 infill and exploration drill holes (5,200m) targeting a potential 20Mt resource was designed and access roads and drill pads constructed.

Rehabilitation and road repairs:
Most of the access roads within the project area have been rehabilitated with focus on the access up the hill to the Nyati Target area. Following the 2014 rain season some access roads have been damaged and limited access is possible. Currently a small compliment of security staff is maintaining the integrity of the Wigu Hill camp to ensure that the fire-breaks are kept clear of vegetation and undertake basic maintenance and road repairs. They are also responsible for maintaining the environmental integrity of the Wigu Hill area by limiting extraction of timber, etc.

Environmental studies:
A detailed Environmental and Social Impact Assessment has been undertaken for the Project area. This work included initial baseline studies and a detailed Social impact assessment. All of the data complied during these studies was assessed and compiled into a final Environmental and Social Impact Assessment Report ("ESIA") by the Tanzanian Environmental consultants, MTL Consulting Company Ltd. A final Environmental Impact Assessment Certificate (issued April 17, 2013) was received from the National Environmental Management Council confirming approval for a small mining operation at Wigu Hill.

Metallurgical testwork:
Extensive metallurgical test work (Orientation and bench scale leach tests) was undertaken by Mintek in Johannesburg on the high grade (>10% TREO), rare earth-rich carbonatite samples from the Tembo and Twiga Targets. The results of the hydro-metallurgical testwork program resulted in identification of an optimised, three stage leaching process. Further extraction processes produced a final mixed rare earth solution from which a cerium salt was precipitated plus three residual mixed rare earth salts prepared. (refer to news release dated March 5, 2012).

All the optimization requirements for the leach process were quantified by Mintek in 2013. In order to substantiate the results of the preliminary leach testwork, Mintek undertook continuous testwork on each of the 3 x 50kg bulk samples. The results reported confirmed the leaching process successfully and reported that REE extraction recoveries between 94% and 97% had been achieved (refer news release April 13, 2015).

Mintek is planning to undertake refining testwork on the 1,500kg bulk sample from the Twiga Target mineralised carbonatite (with estimated grade of >10% TREO). Currently this sample is in storage at Mintek awaiting access timing to their newly completed REE solvent extraction refining pilot plant. The recently published data on REE recoveries from bulk leaches is a very positive and substantial step in the preparation of TREO solutions in preparation for solvent extraction (SX) and refining testwork.

Other metallurgical testwork was undertaken by SGS Mineral Services in Lakefield (SGS), Canada in 2013, on a 20kg sample with positive preliminary flotation testwork results indicating that at least a 2x upgrade of the rare earths (measured from the cerium content) was achieved in rougher stage flotation tests. These preliminary results require optimisation (see news release July 29, 2013), and a 50kg composite sample from Lower Nyati was sent to SGS for further testwork.

Several proposals have been received from Engineering Consulting companies, in South Africa Canada and Australia with experience in REE metallurgy, with costing 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 Strategic partners.

<u>REE Outlook</u>
Prices for REE products had been flat for most of the 1990s into the mid-2000s until the Chinese government initiated limits on exports. The REE prices increased significantly from early 2010 and peaked in 2011 with the combination of constraints placed on mining, processing and export levels by Chinese authorities, and continued global strong demand for rare earth products. The prices started to decline early in 2012 and into 2013 as global economies slowed. Prices in 2014 stabilized and continue to show resistance to further decline. Future pricing is expected to be influenced by global supply and demand trends with Chinese consolidation placing restrictions on some critical rare earths.

The current REE pricing levels represent a challenge for Montero to raise funds to advance the Wigu Hill Project. The Company has been granted a Retention Licence which expires in five years which will allow more time to raise funds to advance the Project to hopefully develop further reserves and for REE prices to stabilize. The Company has recorded an impairment charge of $9,674,088 to reflect the current challenging mining markets and REE pricing, which in turn lead to difficulty in raising funds to further advance this Project at this time. This revised carrying value is based on management's estimate of the fair value of the Company's interest in the Wigu Hill Project and is highly subjective and subject to changes over time. Future changes to this estimate could have a significant impact on the carrying value of the Wigu Hill Project.

As at December 31, 2014, the Company records its Wigu Hill Project at a value of $1,044,090, after the impairment charge of $9,674,088.

South Africa

<u>Phosco Phosphate Project</u>

On November 18, 2011, the Company's subsidiary, Montero Projects Limited ("Montero Projects") acquired the shares in Eurozone Investments Limited ("Eurozone") which holds interests in subsidiary companies that holds phosphate exploration projects in South Africa (hereafter, "Phosco"). Montero Projects paid $101,700 (United States dollars "USD" $100,000) and issued 2,500,000 common shares of Montero, valued at $750,000, and completed the acquisition of Eurozone. The Company now holds two licences namely, the Duyker Eiland and Phillips Kraal areas.

On August 19, 2014, the Company entered into a letter agreement, which was subject to legal and technical due diligence, with Ovation Capital (a South Africa based investment firm) who would finance a pre-feasibility study (to be completed within 12 months of signing of the definitive agreement) to earn 10% of Phosco and would further finance a bankable feasibility study (to be completed within 24 months of signing the definitive agreement) to earn an additional 20% of Phosco, for a total potential ownership of 30% of Phosco. A definitive agreement outlining these terms was finalized and signed on March 2, 2015.

During the year, the Company decided not to proceed with exploration in one of its licence areas, Lambert's Bay, and therefore did not renew its licence there, resulting in an impairment charge of $92,162 relating to its exploration and evaluation assets. In addition, an impairment charge of $10,130 was recorded in conjunction with the reclamation bonds in this licence area.

The Company has a total of $10,553 in reclamation bonds and deposits lodged with the SA government in regards to any potential reclamation costs that may arise regarding its Phosco Project.

Duyker Eiland Project

The Technical Report (NI43-101 compliant) of the sedimentary phosphate deposit, completed by AMEC Earth & Environmental UK Ltd. ("AMEC") was filed on SEDAR on December 14, 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 Preliminary Economic Assessment ("PEA") report was completed by Turgis Consulting (Pty) Ltd., as an independent NI43-101 compliant report (refer news releases February 28, 2012, April 13, 2012). The PEA report 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 including different flotation reagents analysis including the amenability of the phosphate mineralisation at Duyker Eiland project were completed in 2012/3.

The Duyker Eiland and Phillips Kraal Prospecting Rights were granted for 3 years to July 2016 by the Department of Mineral Resources, Western Cape ("DMR").

As at December 31, 2014, the Company records its Phosco Project at a value of $1,308,047, after the impairment charge of $102,292.

Ethiopia

Moyale Project

On August 25, 2014, the Company entered into a binding agreement to acquire up to an 80% interest in the Moyale graphite project in Ethiopia by completing a NI-43-101 report and incurring exploration expenditures. A legal and technical due diligence review was conducted and it was decided not to proceed with this Project.

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 earth element 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. Globally companies 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 and keep these in good standing until access to capital for junior mining companies becomes more 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 risks. 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. Such financing can also be sourced by allowing investment groups to obtain equity at the asset level of properties of interest rather than via subscription into the listed Company. Failure to obtain 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 and Retention 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. The validity of a Retention Licence in Tanzania is not subject to an annual minimum expenditure criteria.

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, 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 the Company, 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.

These 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, 2014 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 substantial doubt about the Company's ability to continue as a going concern. When further funds are required, they will be financed through a private placement of common shares or by debt instruments. Subsequent to the year-end, the Company received amounts totalling $79,326 of loans payable.

Management has undertaken to reduce operating costs including voluntary fee reductions from management, elimination of director fees, reduced rent and administrative fees and decreased usage of administrative staff and consultants. Management has kept exploration costs to a minimum which include staff reductions and deferred work programs, as well as the deferral of payments to management, directors and consultants. These efforts will extend the Company's treasury.

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, 2014, the Company conducted minimal exploration work on its exploration and evaluation assets and focused on completing the application for a Retention Licence for Wigu Hill in Tanzania. The total cash expenditures on exploration and evaluation assets were $125,437 for the year ended December 31, 2014 compared to $744,431 for the year ended December 31, 2013.

The Company's operating costs increased from $922,695 for the year ended December 31, 2013 to $10,087,387 for the year ended December 31, 2014, with the costs for the current year including a significant impairment charge of $9,776,380. The Company has continued to reduce its costs during the year and actually reduced the Company's cash operating expenses (excluding impairment, depreciation and stock-based compensation) from $617,977 in the prior comparative year to $284,789 in the current year. Consulting, directors, administrative and management fees were lower due to reduced consulting personnel and a voluntary decrease in fees for management personnel and elimination of directors' fees. Other expenses, professional fees and shareholder and regulatory expenses are also lower than the prior comparative year due to reduced operating activity of the Company and management's efforts to control and reduce costs. Finance costs relate to interest on loans payable were higher during the year due to the loans being outstanding for the complete year as well as further loans being advanced during the year.

At December 31, 2014, the Company had cash and cash equivalents on hand of $25,080 compared to $24,406 on hand at December 31, 2013. 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. Subsequent to the year-end, the Company received $79,326 of additional funds from loans payable. 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 and phosphate deposits in geologically prospective under-explored regions in Tanzania and South Africa.

The Company believes that it has a portfolio of rare earth element and phosphate 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 by continuing exploration through joint ventures with partners.

1.3 SELECTED ANNUAL INFORMATION

	Year ended December 31		
	2014	**2013**	**2012**
Consulting, directors', administrative and management fees	$ 162,887	$ 341,886	$ 791,960
Depreciation	26,218	31,684	41,287
Impairment of exploration and evaluation assets	9,776,380	203,770	1,942,364
Professional fees	17,907	72,359	129,241
Project investigation costs	-	13,644	11,281
Shareholder and regulatory	47,680	102,524	268,608
Stock-based compensation	-	69,264	-
Other operating costs	56,315	87,564	185,725
Finance costs	17,367	710	
Interest income and other	(35,367)	(13,247)	(2,195)
Net (loss)	(10,069,387)	(910,158)	(3,368,271)
Basic and diluted (loss) per share	$ (0.14)	$ (0.01)	$ (0.06)
Exploration and evaluation assets	2,352,137	9,912,655	8,729,396
Total assets	2,444,525	11,427,314	10,906,874
Total liabilities	1,318,752	906,479	1,576,623
Shareholders' equity	1,125,773	10,520,835	9,330,251

1.4 RESULTS OF 2014 OPERATIONS

During the year ended December 31, 2014, Montero spent little on exploration costs on its Wigu Hill property in Tanzania and its Phosco assets in South Africa. Management's main focus was on the completion of all of the requirements of the submission of the Retention Licence on the Wigu Hill property. Total cash exploration costs incurred during the year ended December 31, 2014 totalled $125,437 compared to $744,431 for the year ended December 31, 2013.

Overall the Company's operating expenses increased significantly from $922,695 for the year ended December 31, 2013 to $10,087,387 for the year ended December 31, 2014 primarily due to an impairment charge of $9,776,380 for the current year. The Company has continued to reduce its costs during the year and actually reduced the Company's cash operating expenses (excluding impairment, depreciation and stock-based compensation) from $617,977 in the prior comparative year to $284,789 in the current year. Significant changes in the Company's expenses are outlined below.

Consulting, directors', administrative and management fees decreased from $341,886 for the year ended December 31, 2013 to $162,887 for the year ended December 31, 2014 due to reduced use of consulting personnel, reduced activity requiring less administrative support and a voluntary fee reduction paid to management personnel as well as the voluntary elimination of directors' fees.

During the year ended December 31, 2014, Montero recorded an **impairment** charge of $9,776,380 on its exploration and evaluation assets to reflect the current challenging world markets in regards to REE pricing and its ability to raise funds to advance its Wigu Hill Project. In addition, the Company decided not to renew one of its Phosco licences in the Lambert's Bay area. This compares to an impairment charge of $203,770 for the year ended December 31, 2013 on assets in Canada and South Africa. The current year's impairment charge related to Wigu Hill was $9,674,088 and was $102,292 related to its Phosco Project.

Professional fees decreased from $72,359 for the year ended December 31, 2013 to $17,907 for the year ended December 31, 2014 due to less legal services being required, reduced audit fees due to less Company activity, as well as an agreement with a vendor for elimination of amounts previously accrued.

Shareholder and regulatory costs decreased from $102,524 for the year ended December 31, 2013 to $47,680 for the year ended December 31, 2014 due to management's efforts to reduce spend in this area through less use of consultants, and fewer conferences and promotional activities being undertaken, as well as no exploration agreements requiring any regulatory filing fees.

Finance costs of $17,367 were incurred for the year ended December 31, 2014 compared to $710 incurred for the year ended December 31, 2013. These costs relate to interest on the loans payable. The increase in finance costs is due to additional loans payable during the year of $130,000 as well as the loans being outstanding for a full year in 2014.

Interest and other income increased from $14,281 for the year ended December 31, 2013 to $35,610 for the year ended December 31, 2014. The amounts for the year ended December 31, 2014 represent tax credits received on its Quebec properties related to expenditures incurred in prior years as well as recovery of amounts paid to expand its licence area in South Africa regarding the Phosco Project which did not proceed. Both amounts are non-recurring. The amounts from the year ended December 31, 2013 relate to recovery of director fees.

The Company's net loss for the year ended December 31, 2014 was $10,069,387, $0.14 per share, compared with a net loss of $910,158, $0.01 per share for the year ended December 31, 2013.

Montero's cash and cash equivalents was $25,080 at December 31, 2014 compared to $24,406 at December 31, 2013. The Company will require further funds in the future to fund its operations and exploration programs since it currently has no revenue sources. Subsequent to the year-end, the Company received $79,326 of additional funds from loans payable. 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, 2014 (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.

As at December 31, 2014	**Canada**	**Tanzania**	**South Africa**	**Total**
	$	**$**	**$**	**$**
Reclamation bonds	-	-	10,553	10,553
Property, plant and equipment	-	51,899	-	51,899
Exploration and evaluation assets	-	1,044,090	1,308,047	2,352,137
Total non-current assets	**-**	**1,095,899**	**1,318,600**	**2,414,589**

As at December 31, 2013	**Canada**	**Tanzania**	**South Africa**	**Total**
	$	**$**	**$**	**$**
Property, 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**

1.5 SUMMARY OF QUARTERLY RESULTS

	2014			
	Q4	**Q3**	**Q2**	**Q1**
	$	**$**	**$**	**$**
Consulting, directors', administrative and management fees	38,880	37,527	39,554	46,926
Impairment of exploration and evaluation assets	9,776,380	-	-	-
Professional fees	(7,931)	(4,395)	17,242	12,991
Other expenses	31,713	9,805	50,247	38,448
Stock-based compensation	-	-	-	-
Finance costs	5,612	5,015	4,683	2,057
Interest income and other	(7,604)	(1,008)	449	(27,204)
Net loss	(9,837,050)	(46,944)	(112,175)	(73,218)
Loss per share				
Basic and diluted	(0.11)	(0.01)	(0.01)	(0.01)
Exploration and evaluation assets	2,352,137	11,923,823	11,380,931	10,313,623
Total assets	2,444,525	12,051,254	11,529,319	11,892,049
Total liabilities	1,318,752	1,247,664	1,160,467	1,033,350
Shareholders' equity	1,125,773	10,803,590	10,368,852	10,858,699

	2013			
	Q4	Q3	Q2	Q1
	$	$	$	$
Consulting, directors', administrative and management fees	60,994	64,693	62,691	153,508
Impairment of exploration and evaluation assets	171,756	-	-	32,014
Professional fees	12,675	18,152	25,361	16,171
Other expenses	25,446	49,427	71,359	88,474
Stock-based compensation	-	-	69,264	-
Finance costs	710	-	-	-
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

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 due to fewer consultants being utilized, voluntary reductions in fees paid to management and directors, as well as non-recurring corporate strategy sessions and recruitment costs previously undertaken. The company recorded impairment on its Wigu Hill Project and its Phosco Project in 2014. Professional fees are lower throughout the quarters due to reduced legal costs for regulatory and operating activities, reduced audit fees due to reduced company activity, as well as an agreement with a vendor for elimination of amounts previously accrued. Stock options were granted in 2013 resulting in stock-based compensation expense. Finance costs commenced in Q4 2013 on the loans payable. Interest and other income is higher in Q1 2014 due to tax credits received on Canadian properties which have been fully impaired. Exploration and evaluation assets are higher in Q2 2014 due to the reclassification of the Phosco assets from held for sale assets to exploration and evaluation assets and are lower in Q4 2014 due to the impairment charge.

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

1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $25,080 as at December 31, 2014 compared to $24,406 as at December 31, 2013.

The Company used cash of $13,303 in its operations for the year ended December 31, 2014 compared to using cash of $659,092 in its operations for the year ended December 31, 2013. The Company used cash of $96,870 on its exploration and evaluation assets for the year ended December 31, 2014 compared to using cash of $744,431 on expenditures on its exploration and evaluation assets for the year ended December 31, 2013. The Company generated cash of $130,000 on its financing activities for the year ended December 31, 2014 compared to generating $947,275 cash from its financing activities for the year ended December 31, 2013.

On November 29, 2013, the Company entered into loan agreements with a company which has a director in common with the Company and with an associate. The loans are unsecured, bear interest at 12% and were originally due on May 31, 2014. The Company and the lenders have agreed to extend the repayment of these loans to be repaid on or before May 29, 2015. At December 31, 2014, the loans payable totalled $213,077 including $18,077 of accrued interest. During the year ended December 31, 2014, interest of $17,367 has been charged to finance costs (year ended December 31, 2013 - $710). Subsequent to the year-end, a further $79,326 was advanced subject to the same terms noted above and these additional loans are due on September 30, 2015.

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, 2014 (Note 9).

On August 19, 2014, the Company entered into a letter agreement with Ovation Capital (a South Africa based investment firm) to finance a pre-feasibility study (to be completed within 12 months of signing of the definitive agreement) to earn 10% of Phosco and to further finance a bankable feasibility study (to be completed within 24 months of signing the definitive agreement) to earn an additional 20% of Phosco, for a total potential ownership of 30% of Phosco. A definitive agreement outlining these terms was finalized and signed on March 2, 2015.

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 has also obtained loan financing from related parties when required.

Management has undertaken to reduce operating costs including voluntary fee reductions from management and directors, 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, deferred work programs and deferral of payments to management. These efforts will extend the Company's treasury.

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, 2014, Montero has 4,620,000 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. Subsequent to the year-end, 1,125,000 stock options with an average exercise price of $0.15 and all of the Company's warrants expired unexercised. The remaining stock options 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	
	2014	**2013**
	$	**$**
Compensation of directors		
Short-term benefits	-	32,000
Share-based payments	-	16,307
	-	48,307
Compensation of key management personnel		
Short-term benefits	79,322	228,772
Share-based payments	-	34,533
	79,322	263,305
Total remuneration of directors and key management personnel	**79,322**	**311,612**

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	
	2014	**2013**
	$	**$**
Exploration and evaluation asset transactions		
Geological consulting	25,580	20,678
Other	17,886	46,561
Total exploration and evaluation asset transactions	43,466	67,239
Operating expense transactions		
Consulting, directors', administrative and management fees	48,000	80,183
General and administrative	12,000	12,000
Shareholder and regulatory	-	12,269
Finance costs	17,367	710
Interest and other income	-	(14,172)
	77,367	90,990
Total trading transactions with related parties	**120,833**	**158,229**

Related party balances

	December 31, 2014	**December 31, 2013**
	$	**$**
Due to related parties	**611,788**	**432,908**
Loans payable	**184,814**	**65,710**

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, which are noted above and included in trade and other payables are unsecured, non-interest bearing and are due within twelve months. In addition to the related party balances included in trade and other payables noted above, the loans payables (including accrued interest) totalling $184,814 are also due from related parties. The loans bear interest at 12% per annum and are due on or before May 29, 2015.

1.10 FOURTH QUARTER

Please see 1.4 SUMMARY OF QUARTERLY RESULTS for information on the fourth quarter of 2014.

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, 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 are 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. The Company's loans payable, originally due on May 31, 2014, were extended to be repaid on or before May 29, 2015.

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"). 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 and phosphates) 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, 2014 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, 2014. The number of common shares outstanding as of the date of this report on April 28, 2015 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.