MONTERO MINING AND EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2012

1.1 DATE

This Management's Discussion and Analysis ("MD&A") of Montero Mining and Exploration Ltd. ("Montero" or the "Company") has been prepared by management as of August 28, 2012 and should be read in conjunction with the condensed consolidated interim financial statements as at June 30, 2012 and the audited financial statements and related notes thereto of the Company, as at and for the years ended December 31, 2011 and 2010. The Company's Audit Committee have reviewed and approved this MD&A.

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

1.2 OVERALL PERFORMANCE

Current Quarter Highlights

- The Company continued its exploration program on the Wigu Hill Rare Earth Element ("REE") project in Tanzania focused on the eastern and east central extent of the Wigu Hill carbonatite complex. However, exploration activity was cut back due to the advent of the heavy rains and preservation of Company's treasury. Activity has been directed at consolidation of the vast amount of field data acquired and assessment of trench and drill hole results as well as planning the next phase of exploration and drilling. Results achieved during the term include:
  - The Lower Nyati carbonatite grab and trench sampling taken along proposed drill section lines returned positive results and these were plotted on maps and sections.
  - The Mintek draft report on the 3-stage leach test work program defining all the optimization parameters determined during the test work was received and further options studies to upgrading the Wigu Hill rare earth ROM material continues.
  - The Tanzanian Ministry of Energy and Minerals approved the extension of the renewal application for the Wigu Hill Prospecting Licence PL3379 effective from 1st July 2012 to 30th June 2014.
  - The Tanzanian environmental consultants, MTL Ltd. commenced the Environmental Impact Assessment (EIA) and the Environmental Social Impact Assessment (ESIA) at Wigu Hill as part of the process to obtain a Mining License.
  - Metallurgical test work program planning with Mintek, including the taking of a >5 tonne bulk sample from Wigu Hill for X-Ray separation and further larger scale metallurgical test work planned this year.
- The Company continues the process to sell or enter into joint exploration agreements in regards to the Phosco assets.
- Exploration cash expenditures of $601,320 were made during the three months ended June 30, 2012, with the majority being spent on the Wigu Hill project in Tanzania.
- Montero's operating expenses decreased during the current quarter to $367,943 compared to $420,526 for the prior comparative quarter, primarily due to efforts by management to reduce costs.
- The Company has decided to reduce its land position in Quebec, Canada and will not renew certain licences in the Girard claim area resulting in an impairment charge of $617,326 during the current quarter.
- The Company recorded a net loss of $982,494 ($0.02 per share) for the three months ended June 30, 2012 compared to a net loss of $424,682 ($0.01 per share) for the three months ended June 30, 2011. Cumulatively for the six months ended June 30, 2012, Montero recorded a net loss of $1,550,587 ($0.03 per share) compared to a net loss of $1,578,090 ($0.04 per share) for the six months ended June 30, 2011.

Company Overview

The Company was incorporated on October 5, 2006 under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition and exploration of mineral properties in Tanzania, South Africa and Quebec, Canada. Montero has subsidiaries which currently operate in Tanzania, South Africa and British Virgin Islands. Montero is a public company listed on the TSX Venture Exchange, and is trading under the symbol *MON.V*. The Company's registered address is 1040 West Georgia Street, Suite 1900, Vancouver, BC, V6E 4H3 and its head office is located at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6; Phone: 416-840-9197; Fax: 866-688-4671; and Web: www.monteromining.com.

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

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

Management is experienced with the necessary skills required to achieve success, both in the technical and financial area with experienced exploration and consulting geologists and those with entrepreneurial and financial experience. Shareholders are represented by a strong Board of Directors, experienced in the exploration mining industry where the Board and management has collectively more than 200 years of mining, geological and exploration experience and have been part of more than 4 discoveries that have found mineral resources and gone into production.

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

Our Exploration Process

Montero uses its management's 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 to Date

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

Tanzania

<u>Wigu Hill Project</u>

The Wigu Hill project is located 170 kms south-west of Dar es Salaam and 68 kms south of Morogoro the nearest major regional center (straight line distances). The area of interest is covered by 2 Prospecting Licences which have been reduced in size and currently cover an area of 55.65 km^2 (Wigu PL3379: 15.14 km^2 and Nyarutanga PL4834: 40.51 km^2) straddling Wigu Hill itself and a contiguous area to the south. Documents for the areas which were relinquished covering an area of 86.07 km^2 in extent are in process with the Tanzanian Ministry of Energy and Minerals.

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

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

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

After the establishment of WHMC, further exploration costs were incurred by Montero whereby RSR has not yet paid their share of these costs to maintain their equity interest in WHMC. As per the terms of the agreement, Montero has notified RSR of the exploration expenditures that were determined to be $861,241 (USD $845,099) as of June 30, 2012. These expenditures have been included in the exploration and evaluation assets, and RSR's share has not been recorded as a receivable. Montero has given notice to RSR for their contribution or undergoes dilution.

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

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

In the 4th Quarter of 2011 a dedicated exploration team focussed on mapping and additional grab sampling over the full extent of Wigu Hill. The sample results have been received and processed and combined with the original reconnaissance assay data. The assay results are very positive and complement and expand upon the original reconnaissance sampling results which emphasized the extent of the mineralization.

The main Wigu Hill Prospecting licence PL3379 was due to expire on the 30th June 2012 ending the 7-year tenure of the licence. Upon advice from the Mining Commissioner, the application for an extension to the licence was submitted for a 4th term of 2 years supported by a comprehensive property renewal report. The extension for a 4th term of two years effective from 1st July 2012 to 30th June 2014 was granted and this extension will enable the Mining Licence application to be submitted.

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

Tembo and Twiga Targets

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

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

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

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

AMEC Earth & Environmental UK Ltd. (AMEC) developed a geological model of the Tembo and Twiga Targets on which to base a resource assessment. The preliminary resource was defined in the NI43-

101 resource report finalised by October 24, 2011 (refer news releases September 12, 2011 and October 24, 2011).

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

Turgis Consulting of South Africa (Turgis) conducted an independent geotechnical review of the Twiga Target to assess the requirements to commence a small mining operation.

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

Extensive metallurgical test work was undertaken by Mintek in Johannesburg during 2011. Initial orientation tests were followed by a successful bench scale leach test. A 2nd phase of leach tests returned positive results, and based on this, a 3rd phase of detailed leach test work was approved and undertaken by year end. The hydro-metallurgical test work program with monitoring and modification of procedures resulted in an optimised leaching process which produced a final mixed rare earth solution from which a mixed rare earth and cerium salt can be prepared (refer news release March 5, 2012). A final draft on the optimisation test work has been made available with the final optimisation parameters not tested in a continuous process. This requires a final continuous bulk leach campaign which is being planned. Additional test work is being investigated, both in-house and with Mintek to determine the best options to produce an upgraded bastnasite concentrate.

Tumbili Target

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

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

Nyati Target

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

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

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

Work in Quarter 2, 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 news release dated June 13, 2012).

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

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

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

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

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

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

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

As at June 30, 2012, the Company had incurred cumulative acquisition costs of $1,228,857 which represents the payments required to purchase the First Option and first portion of the Second Option as noted above, as well as the annual renewal licence fees and an acquisition purchase payment as a result of the tendering process for the licence lost with the Ministry of Energy and Minerals. Cumulative exploration expenditures of $6,831,464 were incurred as of June 30, 2012 and included, geological mapping, trenching, drilling, geochemical and metallurgical costs for the operational field camp and exploration programs. Total expenditures including the acquisition costs on the Wigu Hill project amounted to $8,060,321 as at June 30, 2012.

Iringa and Liwale Licence Areas

In 2007 the Company acquired certain claims from a Tanzanian company as follows: three licences in the Iringa area by the payment of USD $18,750 and the issuance of 600,000 common shares valued at $120,000; and four licences in the Liwale area by the payment of USD $25,000 and the issuance of 800,000 common shares valued at $160,000.

The Iringa licence area is 350 kms west-south-west of Dar es Salaam located in the Kilombera Basin covering an area of ~748 km^2 within which indications of uranium mineralization occur in a granite-pegmatite host. The area is large and rugged and focus was to outline the best target zones for initial evaluation within the alkali granite target areas highlighted by regional radiometric anomalies of a high level.

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

During the second quarter of 2012 all work was focussed on consolidation of data and reports and an assessment of the expenditure committed to the project area.

A visit was undertaken to PL4095 (Kimhandu) immediately to the north of Wigu Hill to assess the uranium potential of this area.

The Liwale licence area is ~400 kms south-west of Dar es Salaam and located in the east edge of the Selous (Luwegu) Basin covering of ~1,590 km^2 in total. The area covers a swathe of the Selous Basin in-filled with Karoo System age sandstone known to host uranium mineralization throughout southern Africa. The Selous Basin has the key characteristics required for the formation of such deposits.

The fieldwork over the central licence area included a scintillometer survey, shallow trenching and stream sampling and results indicated a peak value of 6.67ppm uranium. In the latter part of 2011, a reconnaissance field evaluation trip to the two Selous Reconnaissance licences within the Liwale licence was restrictive with high mountains and a forest reserve in the central zone and 60 kms of roads were opened to reach parts of the area. The surrounding flats are covered by thick soils and colluvium, and as a result geological mapping proved difficult with limited trenching done. There are two major alluvial sand sheets enriched in monazite (a rare earth/phosphate mineral) on the eastern most licences (Kikoteni and Majunguwiro) and is underlain by granitic terrain and work included a ground spectrometer survey (170 kms) and the anomalous readings over the granites attained a maximum equivalent of 255 ppm U, and assays from 179 trenching and pitting samples confirmed the occurrence of narrow pegmatite dikes within the basement granite gneisses and a presence of weak concentration of thorium and uranium. Some additional work may be warranted to establish if a larger occurrence exists but may be limited with the thick colluvium coverage. These sands carry small amounts of free gold and both are present in much diluted quantities and at this stage this occurrence is of limited economic interest with the remote location and absence of any water making it a difficult target to evaluate.

During the 2nd Quarter of 2012 all work was focussed on consolidation of data and reports and an assessment of the expenditure committed to the project area.

As at June 30, 2012, the Company has incurred total acquisition costs of $439,290 on the Iringa and Liwale projects. Minimal exploration programs were undertaken in 2012 as the Company focused on the Wigu Hill project. As at June 30, 2012, Montero had spent an accumulated total of $254,764 on Iringa and Liwale on exploration costs.

South Africa

Phosco Project

On October 18, 2010, the Company's subsidiary, Montero Projects Limited ("Montero Projects") entered into a binding term sheet agreement with Celtic Trust Company Limited ("Celtic"), whereby Montero Projects had the exclusive right to acquire the shares in Celtic's subsidiary (Eurozone Investments Limited, hereafter "Eurozone") which hold interests in 4 phosphate exploration projects in South Africa ("Phosco"). Montero Projects paid an advance of $101,700 (USD $100,000) to be granted an exclusivity period, which expired on July 18, 2011, to complete due diligence on the Phosco assets. This payment was used to settle the liabilities of Eurozone. Effective July 18, 2011, an amendment to the binding term sheet agreement was executed, whereby Montero Projects agreed to acquire the shares in Eurozone by issuing 2,500,000 common shares of Montero. The due diligence was completed, approval was received from the TSX Venture Exchange and on November 10, 2011, the Company issued the 2,500,000 common shares to complete the acquisition of Eurozone.

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

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

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

The Company has elected to sell its Phosco assets. On March 22, 2012 the Company engaged AltaCorp Capital Inc. ("Advisor") in Toronto to assist them in completing a sale or joint venture. 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. The agreement with the Advisor is 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 or joint ventured. Both parties have agreed that the agreement is in effect for a further six months past June 22, 2012 or until December 22, 2012 for parties that AltaCorp have introduced during the period of the agreement. It is not currently known when or in what specific manner the Phosco assets may be sold. Although management is committed and expects to sell or enter into joint exploration agreements in regards to the Phosco assets within a year, there can be no assurances that a sale will take place and the timing of such a sale is uncertain.

Duyker Eiland Project

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

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

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

In the 2nd Quarter of 2012, a comprehensive set of reports were compiled for submission the Department of Mineral Resources (Western Cape) in order to fulfill requirements for renewal of the Duyker Eiland Prospecting Right. This process is ongoing, including a successful site visit by personnel from the Mine Economics section of the Department of Mineral Resources of South Africa.

Management can report that discussions with several interested parties are in the latter stages of due diligence and continue to provide additional information from the interested parties' requests.

As of June 30, 2012, Montero has spent a total of $1,629,774 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

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

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

On April 25, 2007, the Company entered into an agreement to acquire a 100% interest in the Girard claims located in Quebec for consideration of 2,000,000 common shares (issued) valued at $625,000 and by incurring exploration expenditures totalling $640,000 over five years. Anniversary payments were also required which totalled $235,000, $100,000 which was paid in cash and the remaining $135,000 was settled by the issuance of 1,000,000 common shares valued at $135,000. The claims are subject to a 2.0% NSR. The Company has the right to purchase, at any time, either one-half or all of the royalty for a purchase price of $1,000,000 or $2,000,000 respectively.

Prior exploration work (2007/2008) identified three areas with presence of uranium in anomalous concentrations: the North Beraud zone; the Ridge and LSD areas and an area previously explored in the 1980's. Recommendations from the technical report have shown the presence of low level uranium values. Further work (2009/2010) consisted of an infill till sampling, with coincident magnetic survey and results covering 29 line kms contoured values above 4.75ppm uranium delineated a series of flat lying zones with higher uranium values and results indicated amounts greater than 100ppm of more valuable heavy REE in the combined values of erbium, dysprosium and ytterbium. A magnetic survey in the King Lake and East Ledah vicinity in the centre of the licence block adds data to the licence area.

During the quarter ended June 30, 2012, the Company decided to reduce its land position in this area and will not renew certain licences at their renewal date. Accordingly, the Company has recorded an impairment charge of $617,326 during the three months ended June 30, 2012. As of June 30, 2012, the Company has accumulated exploration and evaluation assets of $684,064 in the Girard claim area.

The ongoing exploration work focused in the northern area of the Girard claim block includes a valuation and assessment study to identify further exploration work to be undertaken in the 3rd Quarter of 2012.

Lac Yvonne Claim Area, Quebec

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

On March 14, 2008, the Company entered into a purchase and sale agreement to acquire a 100% interest in 12 of the Lac Yvonne claims for consideration of 100,000 shares at a deemed price of $0.35 per share, which were issued on April 10, 2008. A further 6 claims were transferred subsequent to the initial acquisition. The claims are subject to a 2.0% NSR. The Company has the right to purchase, at any time, either one-half or all of the royalty for a purchase price of $1,000,000 or $2,000,000 respectively.

The Company's exploration work up to 2011 included line cutting (12.6 kms), a magnetic geophysical survey, and a radiometric survey on areas previously not surveyed and mapping on the dikes as outlined in the magnetic geophysical survey. In 2011, a second magnetic survey was completed in order to enlarge the exploration area and a total of 19.25 line km of new magnetic data was reported. The claims have been maintained and are in good standing.

During the six months ended June 30, 2012, the Company spent minimal amounts on the property to maintain the licences in good standing and as of June 30, 2012, the Company has incurred cumulative acquisition and exploration costs totaling $88,914 on this claim area.

The proposed exploration work is to include a valuation and assessment study to identify further exploration work to be undertaken later in the year.

Risk Factors

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

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

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

The condensed consolidated interim 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 June 30, 2012 the Company had not advanced its mineral licences 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.

Management is of the opinion that sufficient working capital will be obtainable from external financing sources (primarily through private placements of common shares) or proceeds from the sale of non-strategic assets, to meet the Company's liabilities and commitments as they become due, although there is risk that additional funds will not be available on a timely basis or on terms acceptable to the Company. 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 three months ended June 30, 2012, the Company conducted exploration work on its exploration and evaluation assets. The majority of the work was conducted on the Wigu Hill prospect in Tanzania. The total cash expenditures on exploration and evaluation assets were $601,320 for the three months ended June 30, 2012; cumulatively for the six months ended June 30, 2012 - $1,547,951 (three months ended June 30, 2011 - $875,340; six months ended June 30, 2011 - $1,985,811). In addition $20,826 was spent on the acquisition of equipment for the six months ended June 30, 2012 compared to $25,446 for the six months ended June 30, 2011.

The Company's operating costs decreased for the three months ended June 30, 2012 to $367,943 compared to $420,526 for the three months ended June 30, 2011. Consulting, directors, administrative and management fees are lower due to strategic planning costs undertaken in the prior year, with no amounts in the current quarter. Other expenses are lower in the current quarter ended June 30, 2012 as less travel undertaken than in the prior comparative quarter. Shareholder and regulatory costs are higher due to investor programs undertaken and marketing consulting fees.

At June 30, 2012, the Company had cash and cash equivalents on hand of $986,358 compared to $3,249,762 on hand at December 31, 2011. No financing activities were undertaken during the current quarter and year to date to June 30, 2012. The Company will require further funds in the future for general working capital and to fund its exploration programs since it currently has no revenue sources. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

Company Objectives and the Year Ahead

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

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

1.3 SELECTED ANNUAL INFORMATION

	Year ended December 31 2011	2010	2009
		(restated to IFRS)	
Consulting, directors', administrative and management fees	$ 820,564	$ 315,607	$ 140,994
Depreciation	17,676	12,236	5,569
Professional fees	280,715	248,579	118,327
Project investigation costs	136,029	60,117	10,400
Shareholder and regulatory	368,539	54,363	-
Stock-based compensation	1,243,162	167,109	-
Other operating costs	361,257	193,727	49,959
Impairment of exploration and evaluation assets	-	24,583	65,518
Interest income and other	(23,750)	(12,038)	(357)
Deferred income taxes	-	(62,863)	62,863
Net (loss)	(3,204,192)	(1,001,420)	(453,273)
Basic and diluted (loss) per share	$ (0.07)	$ (0.03)	$ (0.03)
Exploration and evaluation assets	$10,125,666	$ 3,361,916	$1,745,998
Total assets	13,048,082	4,996,548	2,693,628
Total liabilities	1,174,279	382,824	199,722
Shareholders' equity	$11,873,803	$ 4,613,724	$2,493,906

The above financial information has been restated from amounts previously reported under Canadian GAAP to those amounts reported in compliance with IFRS.

1.4 RESULTS OF Q2 2012 OPERATIONS

During the current quarter ended June 30, 2012, Montero continued exploration work on its Wigu Hill property in Tanzania, continued its efforts to sell its Phosco assets, rationalized its land position in Quebec, Canada and maintained its other properties. Total cash exploration costs incurred during the three months ended June 30, 2012 totaled $601,320; cumulatively for the six months ended June 30, 2012 - $1,547,951 (three months ended June 30, 2011 - $875,340; six months ended June 30, 2011 - $1,985,811), which was spent primarily on the Wigu Hill Project. The Company continued its efforts to sell its Phosco assets and is in preliminary discussions with some interested parties. Management has decided to reduce its land position in Quebec, Canada and will not renew several licences in the Girard claim area at their renewal date, resulting in an impairment charge of $617,326 for the three months ended June 30, 2012.

The Company's operating expenses decreased during the three months ended June 30, 2012 compared to the prior three months ended June 30, 2011. Significant changes in these expenses are outlined below.

Consulting, directors', administrative and management fees decreased from $221,600 for the three months ended June 30, 2011 to $195,630 for the three months ended June 30, 2012. The main reason for this decrease is reduced consulting fees, as corporate strategic planning sessions were undertaken in the prior quarter, but not in the current quarter.

Other expenses decreased from $63,507 for the three months ended June 30, 2011 to $23,818 for the three months ended June 30, 2012 primarily because of reduced travel undertaken in the current quarter.

Professional fees decreased from $54,809 for the three months ended June 30, 2011 to $36,352 for the three months ended June 30, 2012 due to reduced legal fees as costs in the prior quarter included professional fees related to the completion of the Company's IPO and corporate structuring which were non-recurring in the current quarter.

Shareholder and regulatory expenses increased from $35,964 for the three months ended June 30, 2011 to $84,184 for the three months ended June 30, 2012 due to more investor relations activities undertaken including consulting fees for marketing personnel and investor relations personnel.

Impairment of exploration and evaluation assets was $617,326 for the three months ended June 30, 2012 compared to $Nil in the comparative quarter due to the Company rationalizing its land position in the Girard claim area in Quebec, Canada.

The Company's net loss for the three months ended June 30, 2012 was $982,494, $0.02 per share, compared with a net loss of $424,682, $0.01 per share for the three months ended June 30, 2011. Cumulatively, the Company reported a net loss of $1,550,587 ($0.03 per share) for the six months ended June 30, 2012 compared to a net loss of $1,578,090 ($0.04 per share) for the six months ended June 30, 2011.

Montero's cash and cash equivalents amounted to $986,358 at June 30, 2012 compared to $3,249,762 at December 31, 2011. Working capital was $1,427,684 at June 30, 2012 that includes the Phosco Held for Sale assets, compared to $2,316,631 at December 31, 2011. The Company will require further funds in the future to fund its operations and exploration programs since it currently has no revenue sources. Further details on financing alternatives available to the Company are more fully discussed in 1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES.

Commitments and Contingencies

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year to Date* and the condensed consolidated financial statements for the six months ended June 30, 2012 (Note 5).

The Company has no contingent liabilities.

Segmented Information

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

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

As at June 30, 2012	**Canada**	**Tanzania**	**South Africa**	**Total**
	$	**$**	**$**	**$**
Property, plant and equipment	-	121,750	-	121,750
Exploration and evaluation assets	772,978	8,351,598	402,777	9,527,353
Total non-current assets	**772,978**	**8,473,348**	**402,777**	**9,649,103**

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

1.5 SUMMARY OF QUARTERLY RESULTS

	2012		**2011**				**2010**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
							(restated to IFRS)	
Consulting, directors', admin, mgt fees	195,630	290,667	146,750	303,895	221,600	148,319	86,827	84,211
Prof fees	36,352	36,202	65,209	65,896	54,809	94,801	102,550	44,135
Other expenses	135,961	231,145	281,366	262,451	144,117	195,567	82,689	67,748
Stk based comp	-	-	529,451	-	-	713,711	-	-
Impairment of exlpor assets	617,326	-	-	-	-	-	24,583	-
Interest income/other	(2,775)	10,079	(5,007)	(23,909)	4,156	1,010	321	(293)
Net loss	$ (982,494)	$ (568,093)	$ (1,017,769)	$ (608,333)	$ (424,682)	$ (1,153,408)	$ (296,970)	$ (195,801)
Loss per share								
Basic & diluted	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)
Explor and evaln assets	$ 9,527,353	$ 9,369,960	$ 10,125,666	$ 7,863,032	$ 5,298,287	$ 4,423,501	$ 3,361,916	$ 3,103,252
Total assets	12,343,597	13,048,082	13,668,334	13,356,564	8,140,212	8,237,400	4,996,548	3,380,843
Total liabilities	1,266,810	1,174,279	1,071,596	925,949	823,927	503,512	382,824	417,308
Shareholders' equity	$ 11,076,787	$ 11,873,803	$ 12,596,738	$ 12,430,615	$ 7,316,285	$ 7,733,888	$ 4,613,724	$ 2,963,535

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

The above quarterly information is prepared in accordance with IFRS and has been restated from amounts previously reported under Canadian GAAP.

Consulting, directors', administrative and management fees increased in 2011 due to increased use of consultants for recruitment, strategic planning sessions, business development opportunities, increased financial reporting costs including IFRS conversions, increased administrative support costs for new companies established and increased management fees due to increased rates. The increase in these costs for Q1 2012 is due to recruitment fees, financial reporting personnel and business development consulting fees and they fees decreased in Q2 2012 as no recruitment fees were incurred. Professional fees were higher in Q4 2010 and Q1 2011 due to IPO costs, tax fees and IFRS conversion costs. These fees were lower in 2012 due to reduced legal fees. Other expenses are higher in 2011 and Q1 2012 due to costs incurred to attend conferences, investor relation costs incurred to promote the company, regulatory fees required for a public company, increased travel costs and project investigation costs. Other expenses decreased in Q2 2012 due to less travel costs, no project investigation fees and lower general and administrative fees. Stock-based compensation is higher in Q4 and Q1 of 2011 due to the increase in number of stock options granted and increase in Montero's stock price, which is used to calculate the fair value of stock options granted. An impairment charge was recorded in Q2 2012 related to the Company's Quebec, Canada Girard claim area.

Generally, the expenditures have increased in 2011 over the 2010 amounts due to increased exploration and administrative activity in the Company due to increased scope of operations in Canada in regards to public reporting and investor programs to market the Company, and in Tanzania and South Africa, in regards to increased support costs required for increased exploration activity.

1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $986,358 as at June 30, 2012 compared to $3,249,762 as at December 31, 2011.

The Company used cash of $249,369 in its operations for the three months ended June 30, 2012 compared to using cash of $191,292 for the three months ended June 30, 2011. Montero spent $601,320 on exploration and evaluation assets for the three months ended June 30, 2012 compared to spending cash of $875,340 on its investing activities related to expenditures on exploration and evaluation assets for the three months ended June 30, 2011. The Company did not undertake any financing activities to generate cash during the three months ended June 30, 2012 compared to generating cash of $7,500 for the three months ended June 30, 2011.

On February 10, 2011, the Company successfully closed its IPO through the issuance of 8,000,000 Units at $0.50 per Unit raising gross cash proceeds of $4,000,000. Each Unit consists of one common share in the Company and one half of one common share purchase warrant, each whole warrant exercisable into one common share at $0.70 per share until February 10, 2013. Agent's commission included a commission of 7.0% of the gross proceeds raised which amounted to $280,000, and $25,000 as a corporate finance fee. These costs, along with other offering costs totaled $422,900, of which $32,500 were incurred during the year ended December 31, 2010, with the balance of $390,400 being incurred during the three months ended March 31, 2011. The Agent was also granted

Agent Warrants equal to 7.0% of the number of Units sold for a total of 560,000 Agent Warrants. Each Agent Warrant entitles the holder to purchase one Unit at $0.50 per Unit until February 10, 2013, each Unit consisting of one common share and one half of one common share purchase warrant, each whole warrant exercisable into one common share at $0.70 per share until February 10, 2013.

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

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

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

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Year to Date* and the condensed consolidated financial statements for the six months ended June 30, 2012 (Note 5).

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

Montero is a publicly traded corporation listed on the TSX Venture Exchange and plans to utilize the public market to raise the additional funds it requires, either through brokered or non-brokered private placements. The Company issues shares where possible for mineral property acquisitions as well as for debt settlements when practicable. In addition, the Company negotiates favourable funding terms for its mineral property payments where possible and amends the agreements, if required, to coincide with the Company's cash funds available. Montero works with its other exploration partners in exploring for its mineral properties to share the costs and risks in exploring them. The Company also considers divestiture of non-strategic assets so it can raise funds and focus its exploration efforts on its core holdings.

Management is hopeful that the Phosco assets will be sold or joint exploration agreements will be entered into with an interested party before the end of 2012. Latter stages of due diligence discussions are underway with several of the interested parties and Management is providing additional information upon their requests to bring the discussions to conclusion.

All other available options are being pursued in raising additional financings and exploring alternatives with the issuance of shares to settlement liabilities to preserve cash. Management is also pursuing alternative options to obtain investments for the Wigu Hill Project to maintain its fast-track strategy to advance the deposit to the mining and production stage in the short term while further defining a larger deposit.

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 June 30, 2012, Montero has 5,030,000 stock options outstanding, exercisable at a weighted average exercise price of $0.33 per share and 12,328,159 warrants outstanding, exercisable at a weighted average exercise price of $0.73 per share. These securities may be a future source of funding depending upon the Company's trading stock price, although there are no assurances that this will occur.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

Montero does not utilize off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

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.

Key management personnel compensation

	Six months ended June 30	
	2012	**2011**
	$	**$**
Compensation of directors		
Short-term benefits	38,062	23,065
Share-based payments	-	184,800
	38,062	207,865
Compensation of key management personnel		
Short-term benefits	386,450	264,188
Share-based payments	-	408,000
	386,450	672,188
Total remuneration of directors and key management personnel	**424,512**	**880,053**

Related party transactions

	Six months ended June 30	
	2012	**2011**
	$	**$**
Exploration and evaluation asset transactions		
Geological consulting	121,733	242,168
Other	46,545	18,090
Total exploration and evaluation asset transactions	168,278	260,258
Operating expense transactions		
Consulting, directors', administrative & management fees	61,227	16,469
General and administrative	12,000	7,751
Project investigation costs	1,000	14,651
Shareholder and regulatory	30,000	9,722
	104,227	48,592
Total trading transactions with related parties	**272,505**	**308,850**

Related party balances

	June 30, 2012	**December 31, 2011**
	$	**$**
Due to related parties	**592,856**	**221,426**

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

1.10 FOURTH QUARTER

Please see 1.4 SUMMARY OF QUARTERLY RESULTS for information on the fourth quarter of 2011.

1.11 PROPOSED TRANSACTIONS

None

1.12 CRITICAL ACCOUNTING ESTIMATES

Not applicable as the Company is a venture issuer.

1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Changes in accounting policies

None.

Initial adoption of accounting policies and accounting standards

None.

1.14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, INCLUDING MANAGEMENT OF CAPITAL

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

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

Management prepares operating budgets to forecast its financing requirements in advance and they review their capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company. The Company's investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity.

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

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

Industry Risk
The Company is engaged primarily in the mineral exploration field, which is subject to inherent risks of success as well as compliance with environmental, political and regulatory requirements. The Company is potentially at risk for environmental reclamation obligations associated with resource property interests. As well, the Company operates in foreign countries and is subject to local political risks, as well as local regulatory requirements regarding ownership and maintenance of mineral licences. Management is of the opinion that they have the expertise to address these risks and makes all efforts to conduct their business in compliance with local industry standards, however

environmental and local industry laws and practices are complex, and there is no certainty that all exposure to liability or costs have been mitigated.

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

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

Interest Rate Risk
Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents which represent excess cash invested in short-term investments and these accrue interest at variable market rates. The Company monitors these investments with its need for cash flow and is satisfied with the return on these investments, given the timing of the need for cash in the Company. The Company has no interest-bearing liabilities.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada, South Africa and Tanzania and portions of its expenditures are incurred in US dollars, South African Rand and Tanzanian Shillings. The Company's presentation currency is the Canadian dollar ("CAD"), the Tanzanian subsidiaries' functional currency is the United States dollar ("USD") and the South African subsidiaries' (owned by Eurozone) functional currency is South African Rand ("ZAR"). The Company manages this risk by matching receipts and payments in the same currency where possible, but not all of its expenditures can be matched as the Company has no current source of operating cash flow and so must fund the currency as required to pay the expenditures. Consequently, the Company is exposed to changes in CAD compared to the USD and ZAR and a significant fluctuation in the exchange rates could have an effect on the Company's results of operations, financial position or cash flows. The Company does not engage in any hedging activities to reduce its foreign currency risk, but does manage the currency of its cash resources to complement the denomination of the expenditures required.

Based on the above net exposures at June 30, 2012, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a $99,084 (December 31, 2011 – $74,629) increase or decrease in the Company's comprehensive loss and foreign currency translation reserve.

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

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

1.15 OTHER MD&A REQUIREMENTS

DISCLOSURES FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The information required on the Company's exploration and evaluation assets are readily available from the Company's condensed consolidated interim financial statements for the six months ended June 30, 2012 therefore are not required to be repeated here.

DISCLOSURE OF OUTSTANDING SHARE DATA

The information on the Company's share capital including numbers of shares outstanding, details of any conversion features, number of shares issuable on conversion of stock options and warrants, etc. are detailed in the Company's condensed consolidated interim financial statements for the six months ended June 30, 2012. The number of common shares outstanding as of the date of this report on August 28, 2012 is 54,687,063 shares.