

MONTERO MINING AND EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2011

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Management's Discussion and Analysis

For the nine months ended September 30, 2011

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 November 21, 2011 and should be read in conjunction with the audited financial statements and related notes thereto of the Company, as at and for the years ended December 31, 2010 and 2009.

Effective January 1, 2011, the Company prepared its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). This is the first year these condensed consolidated interim financial statements have been prepared in accordance with IFRS, as previously the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures concerning this transition from GAAP to IFRS are provided in 1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION. The Company's Board of Directors have reviewed and approved this MD&A.

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

1.2 OVERALL PERFORMANCE

Current Quarter Highlights

- The Company continues its drilling and trenching programs on the Wigu Hill Rare Earth Element ("REE") project in Tanzania with a focussed exploration program on the eastern and east central extent of the Wigu Hill carbonatite complex. Results include the:
 - The initial inferred mineral resource estimate on the Tembo and Twiga deposits of 3.3Mt grading 2.6% LREO5 (Light Rare Earth Oxides - Ce, La, Pr, Nd and Sr) including 510,000 tonnes averaging 4.4% LREO5 on the eastern ridge.
 - Diamond drilling was completed on the Tumbili Target by the end of July and infill drilling on the Twiga target was carried out and finalized in early October.
 - Assay results for surface grab samples were returned from the Nyati Target upslope from the Tumbili Target. The results were released in October of 2011 and include TREO values up to 18.21% TREOs.
- The Company and RSR (Tanzania) Limited executed a Shareholders' Agreement in regards to the Wigu Hill project and the Company now owns 70% of the Wigu Hill licences.
- The Company and Celtic Trust Company signed an amendment to the binding term sheet concerning the Phosco mineral project in South Africa, whereby the Company agreed to acquire the Phosco assets by issuing 2,500,000 common shares of Montero with a further 1,000,000 shares to be issued if a NI 43-101 resource is determined on the Bierkraal licence area within an 18 month period. As part of the due diligence process, drilling has taken place on the Duyker Eiland project upon which a NI 43-101 compliant resource report is being written by AMEC.
- The Company completed a private placement raising gross proceeds of \$5,892,800 by issuing 9,821,333 units, each unit comprising one share and one-half warrant, with each whole warrant entitling the holder to purchase one share at \$0.80 per share until August 3, 2013.

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- Exploration cash expenditures of \$2,284,989 were made during the three months ended September 30, 2011 compared to cash exploration expenditures of \$307,532 for the three months ended September 30, 2010, with the majority being spent on the Wigu Hill project in Tanzania.
- Montero's operating expenses increased from \$189,689 for the three months ended September 30, 2010 to \$632,242 for the three months ended September 30, 2011 due to increased activity in the Company's operations.
- The Company recorded a net loss of \$608,333 (\$0.01 per share) for the three months ended September 30, 2011 compared to a net loss of \$195,801 (\$0.01 per share) for the three months ended September 30, 2010. Cumulatively for the nine months ended September 30, 2011, Montero recorded a net loss of \$2,186,423 (\$0.05 per share) compared to a net loss of \$704,450 (\$0.03 per share) for the nine months ended September 30, 2010.

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 and British Virgin Islands ("BVI") and is in the process of acquiring subsidiaries which hold the Phosco assets in South Africa.

Montero is a public company which was listed on the TSX Venture Exchange on February 15, 2011, 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 have 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 well-rounded 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 150 years of exploration experience and have been part of more than 4 discoveries that have found mineral resources and gone into production.

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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 Quarter and 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

Wigu Hill Project

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 55.65km² (Wigu PL3379: 15.14km² & Nyarutanga PL4834: 40.51km²) straddling Wigu Hill itself and a contiguous area to the south. Re-applications have been submitted for the areas which were relinquished which are 86.07km² in extent.

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 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.

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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 a newly-formed company 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 the newly-formed company.
- 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%.

The Wigu Hill complex is known to be an extensive occurrence of rare earths, with bastnaesite-rich carbonatite dikes hosting high grades of TREO's essentially the light fraction 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 above average TREO values. Based on this evidence of the widespread occurrence of bastnasite-bearing carbonatites, exploration was focussed on the eastern side of Wigu Hill. Trenching, sampling and geological mapping of the Tembo Target (Target 6) was finalized during the third and fourth quarters of 2010. A base camp was established and new equipment purchased.

In Q1 2011, exploration activities were advanced on both the Tembo and the Twiga Targets. The bastnasite-rich carbonatite dykes on both targets were assessed in detail by trenching and core drilling. In addition, on Twiga 14 core boreholes were drilled (1,610m) and on Tembo 5 boreholes were completed (540m) for a total of 19 boreholes and 2,150m of core drilling (refer to press 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 on the Tembo and Twiga Targets was entered into an Access database.

In Q2 2011, the verified Access database, surface geological maps and assay data were handed over to AMEC Earth & Environmental UK Ltd. (AMEC) to commence development of a geological model on which to base a resource assessment on the mineralised carbonatites from these two target areas. The resource model was at an advanced stage of development at the end of Q2. Exploration focus shifted to the Tumbili Target, where detailed mapping, trenching and drilling was undertaken. By the end of Q2, 1,003.55m of core drilling had been completed with drilling on BH TUM004 in progress.

During Q2 the metallurgical evaluations at Mintek focused on the 2nd phase of leach test and based on the positive results, the 3rd phase test work proposal was prepared by Mintek for review. SGS Lakefield laboratory (SGS) near Toronto was visited with a view to contracting metallurgical services. A non-disclosure agreement with SGS was signed and discussions followed to assess whether SGS have alternative ideas that might streamline the ability to extract the bastnasite from the Wigu Hill material.

During Q3, the focus of exploration activities has been on evaluation of the Tumbili Target to search for a large tonnage resource with drilling of 521.0m in two boreholes (BH TUM005 - 247.70m - with carbonatite breccia with dolomitic carbonatite and BH TUM006 - 273.30m -with dolomitic carbonatite

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with carbonatite breccia). The mineralisation observed in the outcrops, trenches and borehole cores was found to be finely disseminated, but widely distributed within the carbonatite breccias and the dolomitic carbonatite dykes. Only locally in trenches TUM001 and TUM002 was some higher grade mineralisation located (refer press release dated July 7, 2011 and September 12, 2011 for the early results). Results for the most recently completed boreholes are pending.

The focus of geological mapping moved upslope from the Tumbili zone where outcrops of dolomitic carbonatite were located and mapped over a significant area. Rock chip sampling was undertaken leading to finding well mineralised bastnaesite-rich carbonatites. The preliminary assay results from these samples sent for analysis, are being reviewed and a report thereon is expected at the end of the next quarter.

On completion of the 6th borehole on the Tumbili Target, infill drilling at the Twiga target on the well mineralised "EW" Dike and associated dikes was started. A total of 17 holes (895.3m) were drilled at ~ 25m spacing to prove grade and continuity of the "EW" dike, with a view to establishing a small, near surface, high grade reserve of bastnaesite mineralisation. These cores have been sampled and the assays are pending.

An independent geotechnical review of the Tumbili core was undertaken. In addition preliminary inquiries were made to Turgis Consulting of South Africa, to assess the requirements to commence a small mining operation.

Road access and drill pads were prepared to the Nyati Target, a zone of bastnaesite-rich carbonatites high above the Tumbili Target. Drilling commenced at the Nyati Target towards the end of the quarter and the first borehole - NYT001 was completed to a depth of 186.85m and drilling commenced on NYT002. Exploration is now focussed on the evaluation of the Nyati target in the form of detailed geological mapping, trenching and surface sampling.

AMEC completed their evaluation of the geological model during Q3 and preliminary assessments were reviewed. At the same time efforts were focussed on the compilation of the NI 43-101 resource report. The final inferred resource figures were made available in early September (refer press release September 12, 2011) and thereafter the resource report was finalised by October 21, 2011.

The company's environmental management plan was lodged with the local environmental authorities. A baseline fauna study was completed and the report submitted and a flora study was undertaken. The report for this study will only be finalised in Q4. Studies of the water quality and availability are underway.

During the nine months ended September 30, 2011, the Company had incurred cumulative acquisition costs of \$1,179,004 which represents the commitments required to purchase the First Option and Second Option as noted above, as well as the annual renewal licence fees. Cumulative exploration expenditures of \$4,164,095 were incurred as of September 30, 2011 and included, geological mapping, trenching, drilling, geochemical and metallurgical, costs for the operational field camp and exploration programs.

Iringa and Liwale Licence Areas

In 2007 the Company acquired certain claims from a Tanzanian company as follows: three licences in the Iringa area by the payment of USD \$18,750 and the issuance of 600,000 common shares valued at \$120,000; and four licences in the Liwale area by the payment of USD \$25,000 and the issuance of 800,000 common shares valued at \$160,000. During the year ended December 31, 2010, the

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Company decided not to pursue exploration in one of the licence areas of Liwale and wrote off the related mineral properties and exploration costs of \$24,583 as an impairment loss.

The Iringa licence area is 350 kms west-south-west of Dar es Salaam located in the Kilombero Basin covering an area of approximately 748 square kms within which indications of uranium mineralization occur in a granite-pegmatite host. During Q2, the previously undertaken research work was reassessed in detail and definitive plans made to commence a reconnaissance field evaluation of the area. 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. Mobilization of the field team took place at the end of Q2.

An initial reconnaissance exploration field program was undertaken on the Iringa licence area. The evaluation involved reconnaissance geological mapping, localised soil sampling and rock chip sampling. Some of the anomalous radiometric targets were confirmed in the field and indications of uranium mineralization were detected. Batches of rock and soil samples have been submitted for analysis and follow up evaluation work in the area will be undertaken on the basis of the results obtained.

The Liwale licence area is approximately 400 kms south-west of Dar es Salaam and is located in the east edge of the Selous (Luwegu) Basin. The licence area covers approximately 1,590 square kms in total. The area covers a swathe of the Selous basin infilled 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. Reconnaissance fieldwork in 2007 over the central licence area included a scintillometer survey, shallow trenching and stream sampling with results indicated a peak value of 6.67ppm uranium.

The compilation of a GIS database was instrumental in highlighting the main areas of interest in the Liwale region for the focus of future exploration and acquisition activities. The Prospecting Licences straddle one of the potential uranium trends within the Karoo Sedimentary Basin and a more detailed assessment of this area has identified adjacent areas where this trend continues.

During the quarter ended September 30, 2011, the Company was notified that the Reconnaissance Prospecting Licences straddling a part of the Liwale area would no longer be valid due to introduction of the new Mines Act of 2010, and the Company was invited to apply for the areas of interest under conventional Prospecting Licences. The regional geological setting was reviewed and Prospecting Licence applications have been submitted to retain these areas. Research efforts into the historical geological data and past exploration in the Liwale area were continued in the quarter with preparations for a reconnaissance field evaluation trip into this remote area, and the field trip commenced in late September and is currently underway.

During the nine months ended September 30, 2011, the Company incurred minimal expenditures on Iringa and Liwale projects, as it focused on Wigu Hill and Phosco. As at September 30, 2011, Montero had spent an accumulated total of \$556,442 on Iringa and Liwale on acquisition and 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 has the exclusive right to acquire the shares in Celtic's subsidiaries which hold interests in 4 phosphate exploration projects in South Africa (the "Phosco assets"). Montero Projects paid \$100,000

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to be granted an exclusivity period, which expired on July 18, 2011, to complete due diligence on the Phosco assets.

Effective July 18, 2011, an amendment to the binding term sheet agreement was executed, whereby Montero Projects agreed to acquire the shares in Celtic's subsidiaries holding the Phosco assets by issuing 2,500,000 common shares of Montero, subject to satisfactory completion of final due diligence and approval from the TSX Venture Exchange on or before November 18, 2011. On November 10, 2011, the due diligence was completed and 2,500,000 common shares of Montero were issued to Celtic to complete this acquisition. 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 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 project covers 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 Duyker Eiland project area has historical prospecting results indicative of 30Mt of phosphatic sands (these estimates pre-date the introduction of NI43-101). The Bierkraal project area is located in an apatite-rich layer of the Bushveld Igneous Complex.

During the due diligence period, compilation of the historic data, field visits, mapping and inspection of potential drilling locations was undertaken. Montero has confirmation that the licences for Phillips Kraal, Duyker Eiland and Lamberts Bay are in good standing. The application for a prospecting licence at Bierkraal is in process, with the application formally upheld by the Director General of Mineral Resources in early December.

AMEC Earth & Environmental UK Ltd. (AMEC) are currently assessing the data from the drilling program and a resource evaluation on the Duyker Eiland area plus finalization of a NI 43-101 compliant resource report is undergoing peer review at AMEC.

During the quarter ended September 30, 2011 additional metallurgical test work was completed and the results of this work have been integrated with the resource evaluation report prepared by AMEC.

As of September 30, 2011, Montero has spent a total of \$686,662 on acquisition and exploration costs related to the Phosco assets.

Canada

Girard Claim Area, Quebec

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 square kms. The terrain is partially covered by glacial till, is undulating and covered with temperate forest.

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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 and 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.

The previous exploration work 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 was conducted in 2010 in the King Lake and East Ledah vicinity in the centre of the licence block. The claims have been maintained and are in good standing.

During the nine months ended September 30, 2011, the Company spent minimal exploration funds on the property since it was focused on the Wigu Hill and Phosco projects. As of September 30, 2011, the Company incurred cumulative acquisition and exploration costs totaling \$1,197,476 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 seasonal exploration period of the year. This is ongoing.

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 square kms. 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.

Prior exploration work included line cutting (12.6 kms), a magnetic geophysical survey, a radiometric survey on areas previously not surveyed and mapping on the dikes as outlined in the magnetic geophysical survey. The claims have been maintained and are in good standing. In April, 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.

During the nine months ended September 30, 2011, the Company spent minimal amounts on the property since it was focused on the Wigu Hill and Phosco projects. As of September 30, 2011, the Company incurred cumulative acquisition and exploration costs totaling \$79,353 on this claim area.

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

Risk Factors

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

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

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

The consolidated financial statements have been prepared using IFRS applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in the condensed consolidated interim financial statements.

As at September 30, 2011, the Company had an accumulated deficit of \$5,229,833 and has not advanced its exploration and evaluation assets to commercial production and is currently not able to finance its day to day activities through operations. The ability of the Company to continue operations as a going concern is dependent on the continued support of its shareholders and directors, the ability to continue to raise adequate funding to finance its operations, and to eventually advance its mineral exploration activities to attain profitable operations, the outcome of which cannot be predicted at this time. Management is of the opinion that sufficient working capital will be obtainable from external financing sources to meet the Company's liabilities and commitments as they become due, although there is risk that additional financing 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.

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Financial Performance

During the three months ended September 30, 2011, the Company continued exploration work on its mineral properties. The majority of the work was conducted on the Wigu Hill prospect in Tanzania. The work undertaken on the Company's exploration and evaluation assets is outlined above. The total cash expenditures on these exploration and evaluation assets was \$2,284,989 for the three months ended September 30, 2011 (\$4,270,721 for the nine months ended September 30, 2011) compared to \$307,532 for the three months ended September 30, 2010 (\$1,240,891 for the nine months ended September 30, 2010). In addition \$55,133 was spent on acquisition of equipment for the nine months ended September 30, 2011 compared to \$Nil for the nine months ended September 30, 2010.

The Company's operating costs increased for the three months ended September 30, 2011 to \$632,242 compared to \$189,689 for the comparative quarter in 2010, primarily due to increased activity in the Company's operations. Consulting, directors, administrative and management fees are higher due to more management and administrative support being required for a public company and increased operations. Other expenses are higher due to additional travel costs required on the Company's exploration projects and shareholder and regulatory costs are higher since the Company became publicly traded on the TSX Venture Exchange.

At September 30, 2011, the Company had cash and cash equivalents on hand of \$5,273,613 compared to \$1,526,902 on December 31, 2010. The increase is primarily due to Montero successfully raising \$9,900,300 in gross proceeds from the issue of shares, offset by funds spent on exploration activity and operations. These funds will be used to fund the Company's future exploration programs and its operations and for general working capital purposes. However, the Company will require further funds in the future 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 focus on exploring, discovery and development of grass-roots rare earth element, phosphate and uranium deposits in geologically prospective under-explored regions in southern and east Africa, 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 to these assets by drilling the resources in a timely fashion, by raising exploration funding or joint venture or by disposal of non-strategic assets.

The Company has managed its cash flow to maximize the expenditures which can be spent on its exploration programs and reduce to a minimum corporate expenses with small offices, contracted staff and minimal overheads. Since the Company is now a publicly reporting entity, it will incur increased consulting fees related to public reporting, including the conversion to IFRS, as well as increased shareholder and regulatory costs, that are common with other public companies of this size.

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1.3 SELECTED ANNUAL INFORMATION

	Year ended December 31		
	2010	2009	2008
	(restated to IFRS)		
Consulting, directors', administrative and management fees	\$ 315,607	\$ 140,994	\$ 125,553
Depreciation	12,236	5,569	5,570
Impairment of exploration and evaluation assets	26,085	65,518	465,417
Professional fees	248,579	118,327	124,691
Project investigation costs	60,117	10,400	11,980
Shareholder and regulatory	54,363	-	-
Stock-based compensation	167,109	-	305,172
Other operating costs	202,189	49,959	62,984
Interest income and other	(22,002)	(357)	(8,309)
Deferred income taxes	(62,863)	62,863	-
Net (loss)	(1,001,420)	(453,273)	(1,093,058)
Basic and diluted (loss) per share	\$ (0.03)	\$ (0.03)	\$ (0.08)
Exploration and evaluation assets	3,361,916	1,745,998	1,569,659
Total assets	4,996,548	2,693,628	1,698,586
Total liabilities	382,824	199,722	181,180
Shareholders' equity	4,613,724	2,493,906	1,517,406

The above financial information has been restated from amounts previously reported under Canadian GAAP to those amounts reported in compliance with IFRS. See 1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION for further details.

1.4 RESULTS OF Q3 2011 OPERATIONS

Montero continued its exploration work on its properties in Tanzania and South Africa and maintained its properties in Quebec, Canada during the quarter. Total cash exploration costs incurred during the three months ended September 30, 2011 totaled \$2,284,989 (\$307,532 for the three months ended September 30, 2010), which was spent primarily on the Wigu Hill. Most of these costs were spent on drilling, geological consulting and geochemical and metallurgical costs.

The Company's operating expenses increased during the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to increased activity in the company since it is now publicly traded and with more exploration activity being undertaken. Significant changes in these expenses are outlined below.

Consulting, directors', administrative and management fees increased from \$84,211 for the quarter ended September 30, 2010 to \$303,895 for the quarter ended September 30, 2011 as more demands were placed on the Company with respect to increased exploration activity and the requirements of a new publicly listing entity. Most of this increase is explained as follows. Consulting fees increased by \$108,960 due to corporate strategy sessions, recruitment fees for new personnel and business development activities. Administrative fees increased by \$72,843 due to higher administrative costs required in South Africa, Tanzania and BVI for administrative staff, as well as initial costs

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required to establish new companies in BVI and Tanzania. Management fees increased by \$25,476 due to increased time spent on the Company's activities as well as increased rates.

Other expenses increased from \$29,192 for the quarter ended September 30, 2010 to \$59,107 for the quarter ended September 30, 2011 due to increased travel costs required due to more activity on the Company's projects in Tanzania and South Africa, as well as strategic planning sessions in South Africa.

Project investigation costs increased from \$7,051 for the quarter ended September 30, 2010 to \$46,735 for the quarter ended September 30, 2011 due to research undertaken on REE programs as well as phosphate programs.

Shareholder and regulatory expenses increased from \$5,539 for the quarter ended September 30, 2010 to \$110,486 for the quarter ended September 30, 2011 primarily due to various investor relations activities including consulting fees, promotional materials and media program initiatives, as well as regulatory charges for public companies.

The Company's net loss for the nine months ended September 30, 2011 was \$2,186,423, \$0.05 per share, compared with a net loss of \$704,450, \$0.03 per share for the nine months ended September 30, 2010.

Montero's **cash and cash equivalents** amounted to \$5,273,613 at September 30, 2011 compared to \$1,526,902 at December 31, 2010. Working capital was \$4,448,046 at September 30, 2011 compared to \$1,217,226 at December 31, 2010. The cash has increased since Montero recently completed a private placement for gross proceeds of \$5,892,800. These funds, net of cash share issue costs of \$453,272, are being used to fund its exploration programs, for operations and for general working capital purposes. However, the Company will require further funds in the future 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 entered into a services agreement with a company which has an officer in common with the Company, for office space and personnel charges for one year, expiring on December 31, 2011. The Company is obligated to pay \$4,000 for rental and office administrative services and is also charged for various field and office personnel at specified rates based on time worked.

The Company has commitments for share issuances, cash payments and exploration expenditure commitments related to its exploration and evaluation assets pursuant to the acquisition agreements. These details are outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Quarter and Year-to-Date* and Note 5 to the condensed consolidated interim financial statements for the nine months ended September 30, 2011.

The Company has no contingent liabilities.

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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 September 30, 2011				
	Canada	Tanzania	South Africa	Total
	\$	\$	\$	\$
Exploration and evaluation assets	1,276,829	5,899,541	686,662	7,863,032
Property, plant and equipment	-	79,537	-	79,537
Total non-current assets	1,276,829	5,979,078	686,662	7,942,569

As at December 31, 2010				
	Canada	Tanzania	South Africa	Total
	\$	\$	\$	\$
Exploration and evaluation assets	1,203,414	1,938,289	220,213	3,361,916
Property, plant and equipment	-	34,582	-	34,582
Total non-current assets	1,203,414	1,972,871	220,213	3,396,498

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1.5 SUMMARY OF QUARTERLY RESULTS

	Q3	2011 Q2	Q1	Q4	2010 Q3	2010 Q2 (restated to IFRS)	Q1	2009 Q4
Consulting, directors', admin, mgt fees	303,895	221,600	148,319	86,827	84,211	77,301	67,268	49,496
Impairment of mineral pties	-	-	-	26,085	-	-	-	-
Prof fees	65,896	54,809	94,801	102,550	44,135	57,208	44,686	62,757
Other expenses	262,451	144,117	195,567	82,689	67,748	87,187	91,281	123,845
Stock based compensation	-	-	713,711	-	-	42,324	124,785	-
Interest income/other	(23,909)	4,156	1,010	(1,181)	(293)	(230)	(83,161)	62,579
Net loss	\$ (608,333)	\$ (424,682)	\$ (1,153,408)	\$ (296,970)	\$ (195,801)	\$ (263,790)	\$ (244,859)	\$ (298,677)
Loss per share								
Basic & diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Explor and evaln assets	\$ 7,863,032	\$ 5,298,287	\$ 4,423,501	\$ 3,361,916	\$ 3,103,252	\$ 2,828,378	\$ 2,002,391	\$ 1,745,998
Total assets	\$ 13,356,564	\$ 8,140,212	\$ 8,237,400	\$ 4,996,548	\$ 3,380,843	\$ 3,473,082	\$ 2,602,445	\$ 2,693,628
Total liabilities	\$ 925,949	\$ 823,927	\$ 503,512	\$ 382,824	\$ 417,308	\$ 278,938	\$ 174,367	\$ 199,722
Shareholders' equity	\$ 12,430,615	\$ 7,316,285	\$ 7,733,888	\$ 4,613,724	\$ 2,963,535	\$ 3,194,144	\$ 2,428,078	\$ 2,493,906

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 bonuses and increased rates. Professional fees were higher in Q4 2010 and Q1 2011 due to IPO costs, tax fees and IFRS conversion costs. Other expenses are higher in 2011 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 increased project investigation costs. Stock-based compensation is higher in Q1 2011 due to the increase in Montero's stock price, as well as stock price volatility, which are used to calculate the fair value of stock options granted.

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 in Tanzania and South Africa, in regards to exploration programs.

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1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of \$5,273,613 as at September 30, 2011 compared to \$1,526,902 as at December 31, 2010.

The Company used cash of \$479,184 in its operations for the three months ended September 30, 2011 compared to using cash of \$61,958 for the three months ended September 30, 2010. Montero spent \$2,314,597 on investing activities on expenditures on exploration and evaluation assets and equipment for the quarter ended September 30, 2011 compared to spending cash of \$307,532 on its investing activities related to expenditures on exploration and evaluation assets and equipment for the quarter ended September 30, 2010. The Company generated cash of \$5,439,528 from its financing activities for the quarter ended September 30, 2011 compared to utilizing cash of \$2,150 for share issue costs for the comparative quarter ended September 30, 2010.

The Company has entered into a services agreement with a company which has an officer in common with the Company, for office space and personnel charges for one year, expiring on December 31, 2011. The Company is obligated to pay \$4,000 for rental and office administrative services and is also charged for various field and office personnel at specified rates based on time worked.

The Company has commitments for share issuances, cash payments and exploration expenditure commitments related to its exploration and evaluation assets pursuant to the acquisition agreements. These details are outlined in 1.2 OVERALL PERFORMANCE, *Our Exploration Results for the Quarter and Year-to-Date* and Note 5 to the condensed consolidated interim financial statements for the nine months ended September 30, 2011.

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 when practicable 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 other joint venture partners in exploring for its mineral properties to share the costs and risks in exploring them.

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.

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 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 six months ended September 30, 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.

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

As of September 30, 2011, Montero has 3,650,000 stock options outstanding at a weighted average exercise price of \$0.30 per share and 11,669,413 warrants outstanding at a weighted average exercise price of \$0.74 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

	Nine months ended Sept 30	
	2011	2010
	\$	\$
<i>Compensation of directors</i>		
Short-term benefits	38,470	18,242
Share-based payments	184,800	58,000
	223,270	76,242
<i>Compensation of key management personnel</i>		
Short-term benefits	434,645	302,001
Share-based payments	408,000	105,250
	842,645	407,251
Total remuneration of directors and key management personnel	1,065,915	483,493

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Related party transactions

	Nine months ended Sept 30	
	2011	2010
	\$	\$
<i>Exploration and evaluation asset transactions</i>		
Geological consulting	225,073	250,017
Motor vehicle costs	99	12,160
Project administration costs	-	2,248
Total exploration and evaluation asset transactions	225,172	264,425
<i>Operating expense transactions</i>		
Consulting, directors', administrative and management fees	77,185	13,470
General and administrative	20,777	-
Project investigation costs	36,592	23,525
Shareholder and regulatory	30,478	26,669
	165,032	63,664
Total trading transactions with related parties	390,204	328,089

Related party balances

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

	September 30 2011	December 31 2010
	\$	\$
Due to related parties	114,762	181,248

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. The amounts are due for services rendered and/or reimbursement of costs. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

1.10 FOURTH QUARTER

Please see 1.4 SUMMARY OF QUARTERLY RESULTS for information on the fourth quarter of 2010.

1.11 PROPOSED TRANSACTIONS

None

1.12 CRITICAL ACCOUNTING ESTIMATES

Not applicable as the Company is a venture issuer.

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1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Changes in accounting policies

None.

Initial adoption of accounting policies and accounting standards

The Company adopted IFRS effective January 1, 2011 and as required by IFRS 1 "*First-time Adoption of International Financial Reporting Standards*", retroactively restated its financial position and results of operations from the previous accounting basis of Canadian GAAP to its opening transitional statement of financial position at January 1, 2010. The comparative amounts for 2010 are also converted to IFRS for comparative purposes.

IFRS 1 sets forth guidance for the initial adoption of IFRS and outlines optional exemptions that may be adopted on the first-time adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to the statement of financial position taken to deficit unless certain exemptions are applied. The Company has applied the following optional transition exemptions:

- The Company has applied the exemption that relates to cumulative translation differences on translation of foreign operations to its opening statement of financial position as of January 1, 2010. IFRS 1 allows a first-time adopter to elect not to calculate the translation difference related to foreign operations retrospectively. Instead, an entity may reset translation differences at the date of transition, determined in accordance with Canadian GAAP, to zero. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted the deficit by the same amount of \$29,535 at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal of the foreign operation.
- The Company has also applied the exemption that relates to share-based payments, wherein IFRS 1 allows a first-time adopter to elect not to apply the guidelines provided for by IFRS 2 to equity instruments that were granted on or before November 7, 2002 or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which has been accounted for in accordance with Canadian GAAP.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of comprehensive loss, statement of financial position, statement of shareholders' equity and statement of cash flows have been reconciled with those presented under IFRS, as at the transition date with the resulting differences explained.

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The Canadian GAAP statement of financial position has been reconciled to IFRS as at December 31 and January 1, 2010 as follows:

	Notes	December 31, 2010			January 1, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$
Exploration & evaluation assets	a) e)	3,469,486	(107,570)	3,361,916	1,775,533	(29,535)	1,745,998
Property, plant and equipment	e)	36,082	(1,500)	34,582	5,020	-	5,020
Deferred financing costs	b)	190,142	(190,142)	-	24,071	(24,071)	-
Total non-current assets		3,695,710	(299,212)	3,396,498	1,804,624	(53,606)	1,751,018
Prepaid expenses and deposits		41,308	-	41,308	-	-	-
Trade and other receivables		31,840	-	31,840	5,660	-	5,660
Cash and cash equivalents		1,526,902	-	1,526,902	936,950	-	936,950
Total current assets		1,600,050	-	1,600,050	942,610	-	942,610
TOTAL ASSETS		5,295,760	(299,212)	4,996,548	2,747,234	(53,606)	2,693,628
Equity attributable to owners of the parent							
Share capital	b)	6,902,015	(34,650)	6,867,365	4,175,244	-	4,175,244
Obligation to issue shares		-	-	-	55,480	-	55,480
Warrants	d)	-	397,023	397,023	-	-	-
Share-based payment reserves	d)	869,304	(397,023)	472,281	305,172	-	305,172
Foreign currency translation reserve	e)	-	(79,535)	(79,535)	-	-	-
Accumulated deficit	a) b) c)	(2,858,383)	(185,027)	(3,043,410)	(1,925,521)	(116,469)	(2,041,990)
Total shareholders' equity		4,912,936	(299,212)	4,613,724	2,610,375	(116,469)	2,493,906
Deferred income taxes	c)	-	-	-	-	62,863	62,863
Trade and other payables		382,824	-	382,824	136,859	-	136,859
Total current liabilities		382,824	-	382,824	136,859	-	136,859
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,295,760	(299,212)	4,996,548	2,747,234	(53,606)	2,693,628

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The Canadian GAAP shareholders' equity as at December 31, September 30 and January 1, 2010 has been reconciled to IFRS as follows:

	Notes	December 31 2010 \$	September 30 2010 \$	January 1 2010 \$
Shareholders' equity reported under Canadian GAAP		4,912,936	3,100,901	2,610,375
Differences arising from applying the foreign exchange rate in effect at the balance sheet date to non-monetary items of foreign operations	22 a)	(109,070)	(48,172)	(29,535)
Difference arising from accounting treatment of deferred financing costs	22 b)	(190,142)	(89,194)	(24,071)
Difference arising from deferred taxes arising on transfer of assets between enterprises of a consolidated group	22 c)	-	-	(62,863)
Shareholders' equity reported under IFRS		4,613,724	2,963,535	2,493,906

The Canadian GAAP statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

Year ended December 31, 2010				
	Notes	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Expenses	22 b)	946,402	131,421	1,077,823
Operating loss	22 b)	(946,402)	(131,421)	(1,077,823)
Other items		13,540	-	13,540
Loss before income taxes	22 b)	(932,862)	(131,421)	(1,064,283)
Deferred income tax recovery	22 c)	-	62,863	62,863
Net loss	22 b) c)	(932,862)	(68,558)	(1,001,420)
Exchange difference on translating foreign operations	22 e)	-	(79,535)	(79,535)
Comprehensive loss		(932,862)	(148,093)	(1,080,955)

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The Canadian GAAP statement of comprehensive loss for the three and six months ended September 30, 2010 has been reconciled to IFRS as follows:

	Notes	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$
Expenses	22 b)	162,695	26,994	189,689	713,559	55,473	769,032
Operating loss	22 b)	(162,695)	(26,994)	(189,689)	(713,559)	(55,473)	(769,032)
Other items		(6,112)	-	(6,112)	1,719	-	1,719
Loss before income taxes	22 b)	(168,807)	(26,994)	(195,801)	(711,840)	(55,473)	(767,313)
Deferred income tax recovery	22 c)	-	-	-	-	62,863	62,863
Net loss	22 b) c)	(168,807)	(26,994)	(195,801)	(711,840)	7,390	(704,450)
Exchange difference on translating foreign operations	22 e)	-	(32,658)	(32,658)	-	(18,637)	(18,637)
Comprehensive loss		(168,807)	(59,652)	(228,459)	(711,840)	(11,247)	(723,087)

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The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statement of comprehensive income have resulted in reclassifications of various amounts on the statement of cash flows, however, as there have been no changes to the net operating, investing and financing cash flows previously reported, no reconciliations have been presented.

Notes describing in more detail the reconciliations of accounts from Canadian GAAP to IFRS are provided as follows:

- a) IFRS 1 allows a first-time adopter to elect not to calculate the translation difference related to foreign operations retrospectively. Instead, an entity may reset translation differences at the date of transition, determined in accordance with Canadian GAAP, to zero. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted the deficit by the same amount at the date of transition to IFRS. This resulted in a decrease to exploration and evaluation assets and an increase in the deficit by \$29,535 as at January 1, 2010.
- b) Under certain conditions, Canadian GAAP allows a Company to defer corporate transaction costs incurred in connection with an upcoming share financing. If the financing is successful, the Company then considers these costs as capital transaction costs and charges them to share issue costs. If the financing is unsuccessful, these costs are expensed. Under IFRS, there is no such deferral allowed. All costs that relate to share issue costs are to be charged to share issue costs and other financing costs are to be expensed to operations as incurred. Therefore, the Company has determined that all of the deferred financing costs incurred as of December 31, 2009 do not relate directly to the issue of share capital and therefore have been charged to the deficit as of that date. The Company reviewed the costs incurred for the nine months ended September 30, 2010 have determined that \$55,473 (\$28,479 for the six months ended June 30, 2010) relate to professional fees which have been charged to expense and \$9,650 relate to share issue costs incurred related to the Company's IPO and have been charged to share issue costs and netted against share capital. For the year ended December 31, 2010, the Company has determined that \$131,421 of the costs relate to professional fees which have been charged to expense and \$34,650 relate to share issue costs and have been charged to share issue costs and netted against share capital.
- c) During 2009 the Company transferred assets from one Tanzanian subsidiary to another, realizing a loss on the transaction, which was reversed on consolidation. Under Canadian GAAP, no deferred tax liability should be recognized on the transfer of assets between enterprises in a consolidated group for a temporary difference arising between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements. Under IFRS, a deferred tax liability shall be recorded on temporary differences between the book and tax basis. Accordingly, the Company recorded a deferred tax liability of \$62,863 in its statement of financial position on the transition to IFRS as of January 1, 2010. During the nine months ended September 30, 2010, the Company incurred sufficient losses to offset this deferred tax liability and so a recovery of deferred income taxes of \$62,863 was recorded in the statement of comprehensive loss during the nine months ended September 30, 2010.

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- d) This is a reclassification only between equity accounts from contributed surplus, the Canadian GAAP term used for this account, to share-based payment reserve or warrant accounts, the IFRS terms for these accounts.
- e) IFRS requires that the functional currency of each entity in the consolidated group be determined separately. The Company has determined that the functional currency of all of its subsidiaries is the US dollar and the presentation of currency of the parent company is the Canadian dollar. At the end of each reporting period, the subsidiaries translate their results and financial position into the presentation currency of the Canadian parent's presentation currency of the Canadian dollar. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial period end. Income and expenses for each statement of loss and comprehensive income are translated at the average exchange. Equity transactions are translated using the exchange rate at the date of the transaction. All resulting exchange differences are recognized as a separate component of equity. The foreign exchange translation amounted to \$232,975 for the nine months ended September 30, 2011 (nine months ended September 30, 2010 - (\$18,637); three months ended September 30, 2010 - (\$32,658) and has been charged to comprehensive loss and foreign currency translation reserve.

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

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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 180 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

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investments and these accrue interest at variable market rates. The Company monitors these investments with its need for cash flow and is satisfied with the return on these investments, given the timing of the need for cash in the Company. If interest rates increased or decreased by 0.5%, the loss for the year would be higher or lower by \$25,080 (December 31, 2010 - \$7,006). 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 Rands and Tanzanian Shillings. The Company's presentation currency is the Canadian dollar ("CAD") and the BVI and Tanzanian subsidiaries functional currency is the United States dollar ("USD"). 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 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.

The Company is exposed to currency risk through the following CAD equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars:

	September 30 2011	December 31 2010
	\$	\$
Cash and cash equivalents	40,048	25,863
Prepaid expenses and deposits	31,768	1,092
Trade and other payables	(836,680)	(130,193)
	(764,864)	(103,238)

Based on the above net exposures at September 30, 2011, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a \$76,486 (December 31, 2010 - \$10,324) 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.

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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 nine months ended September 30, 2011 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 condensed consolidated interim financial statements for the nine months ended September 30, 2011. The number of common shares outstanding as of the date of this report on November 21, 2011 is 54,687,063 shares.