MONTERO MINING AND EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Montero Mining and Exploration Ltd.:

We have audited the accompanying consolidated financial statements of Montero Mining and Exploration Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montero Mining and Exploration Ltd. and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has an accumulated deficit of $2,858,383 and is dependent on the continued support of its shareholders and directors, and the ability to continue to raise adequate funding. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 19, 2011

MONTERO MINING AND EXPLORATION LTD.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	$	$
ASSETS		
Current		
Cash and cash equivalents (Note 3)	1,526,902	936,950
Accounts receivable	31,840	5,660
Prepaid expenses and deposits	41,308	-
	1,600,050	942,610
Deferred financing costs (Note 4)	190,142	24,071
Equipment (Note 5)	36,082	5,020
Mineral properties and exploration expenditures (Notes 6 and 10)	3,469,486	1,775,533
	5,295,760	**2,747,234**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	201,576	103,411
Due to related parties (Note 10)	181,248	33,448
	382,824	136,859
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	6,902,015	4,175,244
Obligation to issue shares (Note 8)	-	55,480
Contributed surplus (Note 9)	869,304	305,172
Deficit	(2,858,383)	(1,925,521)
	4,912,936	2,610,375
	5,295,760	**2,747,234**

Nature and Continuance of Operations (Note 1)
Commitments (Note 6)
Subsequent Events (Note 14)

On behalf of the Board:

"Antony Harwood"
Antony Harwood
Director

"Antonia J Chapman"
Antonia J Chapman
Director

The accompanying notes are an integral part of these consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT

	Year ended December 31, 2010	Year ended December 31, 2009
	$	$
EXPENSES		
Amortization	12,236	5,569
Accounting and administrative wages (Note 10)	64,784	13,758
Audit and tax fees	37,683	61,832
Consulting fees	29,230	-
Directors' fees (Note 10)	18,242	15,209
Foreign exchange (gain) loss	8,462	(5,557)
Investor relations (Note 10)	41,557	-
Legal fees	90,665	56,495
Management fees (Note 10)	203,351	112,027
Office and general	34,074	12,129
Project investigation costs (Note 10)	60,117	10,400
Regulatory fees	1,616	-
Rent and occupancy costs (Note 10)	22,649	-
Stock-based compensation (Note 7)	167,109	-
Telephone and communications	20,146	9,388
Travel and accommodation	116,858	33,999
LOSS BEFORE OTHER ITEMS	(928,779)	(325,249)
OTHER ITEMS		
Gain on sale of subsidiary (Note 6)	19,638	-
Impairment of mineral properties (Note 6)	(26,085)	(65,518)
Interest income	2,364	357
	(4,083)	(65,161)
NET AND COMPREHENSIVE LOSS FOR THE YEAR	(932,862)	(390,410)
DEFICIT, BEGINNING OF YEAR	(1,925,521)	(1,535,111)
DEFICIT, END OF YEAR	(2,858,383)	(1,925,521)
LOSS PER SHARE – BASIC AND DILUTED	$ (0.03)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	28,689,627	14,999,107

The accompanying notes are an integral part of these consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	Year ended December 31, 2009
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(932,862)	(390,410)
Non-cash items:		
Amortization	12,236	5,569
Stock-based compensation	167,109	-
Impairment of mineral properties	26,085	65,518
Changes in non-cash working capital items:		
Accounts receivable	(26,180)	(2,453)
Prepaid expenses and deposits	(41,308)	-
Accounts payable and accrued liabilities	98,165	49,231
Due to related parties	235,557	88,928
Cash used in operating activities	(461,198)	(183,617)
FINANCING ACTIVITIES		
Issuance of common shares	2,912,500	1,330,001
Share issue costs	(66,943)	(72,758)
Deferred financing costs	(166,071)	-
Cash provided by financing activities	2,679,486	1,257,243
INVESTING ACTIVITIES		
Acquisition of equipment	(43,298)	-
Mineral property expenditures	(1,585,038)	(251,807)
Cash used in investing activities	(1,628,336)	(251,807)
INCREASE IN CASH AND CASH EQUIVALENTS	589,952	821,819
CASH AND CASH EQUIVALENTS, BEGINNING	936,950	115,131
CASH AND CASH EQUIVALENTS, ENDING	1,526,902	936,950

SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	$	$
Cash paid for interest	-	-
Cash paid for income taxes	-	-
Non-cash transactions		
- Shares issued for debt settlements	87,757	127,000
- Obligation to issue shares for debt settlements	-	55,480
- Shares issued for the acquisition of mineral properties	135,000	-

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Montero Mining and Exploration Ltd (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 Canada.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2010, the Company had an accumulated deficit of $2,858,383. The ability of the Company to continue operations as a going concern is dependent on the continued support of shareholders and directors, the ability to continue to raise adequate funding to fund its 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. Subsequent to the year-end, the Company completed its Initial Public Offering ("IPO"), raising gross proceeds of $4,000,000 and became listed as a public company on the TSX Venture Exchange (Note 14). These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian Dollars.

b) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Montero Tanzania Limited ("Montero Tanzania"), incorporated in Tanzania on April 3, 2007, for the period January 1, 2010 until it was sold on March 11, 2010, Montero Resources Limited ("Montero Resources"), incorporated in Tanzania on November 5, 2007, Montero Resource Holding Limited incorporated in the British Virgin Islands ("BVI") on April 26, 2010 and Montero Projects Limited, incorporated in the BVI on May 3, 2010.

Inter-company balances and transactions are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

c) Use of estimates and measurement uncertainty

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates and valuation assumptions, include assumptions concerning the useful lives of equipment, valuation and carrying value of mineral properties, asset retirement obligations, expected tax rates for future income tax reporting, fair value measurements for financial instruments and share-based transactions and management's assumptions and estimates for going concern considerations. By their nature these estimates are subject to measurement uncertainty and the effect in the consolidated financial statements of changes in such estimates in future periods could be significant. Actual results could differ from these estimates.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term highly liquid interest bearing investments that are readily convertible into cash with a remaining term to maturity of 90 days or less when acquired.

e) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated on a declining balance basis at 30% per annum.

f) Mineral properties and exploration expenditures

Acquisition, exploration and development costs associated with a mineral property are capitalized until the property is producing, abandoned, impaired in value or sold. The costs of abandoned properties are charged to operations when the property is abandoned. The costs of properties in excess of their estimated fair value are charged to operations if the decision is made to dispose of the property or if it is determined that the property is impaired in value.

The recoverability of the amounts capitalized in respect of mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the properties, and upon future profitable production or proceeds from the disposition of the properties.

On a periodic basis, management reviews the carrying values of mineral property and deferred exploration expenditures with a view to assessing whether there have been any circumstances indicating that the carrying amount may not be recoverable. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices and reports and opinions of outside geologists, mine engineers and consultants. In the event that it is determined there is an impairment in the carrying value of the property, the carrying value will be compared to the fair value, and written down or written off, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

g) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to operations using a systematic and rational method and the resulting liability is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As of December 31, 2010, and 2009 the Company does not have any asset retirement obligations.

h) Impairment of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use or disposition and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to operations. Fair value is generally determined using a discounted cash flow analysis.

i) Future income taxes

Income taxes are accounted for using the asset and liability method. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the potential benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates that apply for the years in which the temporary differences are expected to be recovered or settled.

The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely then not that a future tax asset will be recovered, it provides a valuation against the excess.

j) Foreign currency translation

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Gains and losses arising from translation of foreign currency monetary assets and liabilities and transactions are included in the determination of net loss for the year. Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect on the transaction date. Revenues and expenses are translated at average rates in effect during the period except for amortization, which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of net loss for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

k) Financial instruments

The Company follows Canadian Institute of Chartered Accountants ("CICA") Sections 3855, "Financial Instruments – Recognition and Measurement" and Section 3856, "Hedges". Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial assets and liabilities (including derivatives), are to be measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and amounts due to related parties. The carrying values of these financial instruments approximate their fair value. Cash and cash equivalents and deposits are measured at face value, representing fair value, and are classified as held-for-trading. Accounts receivable and deposits, which are measured at amortized cost, are designated as loans and receivables. Accounts payable and amounts due to related parties, which are measured at amortized cost, are designated as other financial liabilities.

The CICA Section 3862, "Financial Instruments – Disclosure", requires an entity to classify fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The levels and inputs which may be used to measure fair value are as follows:

Level 1 – fair values are based on quoted prices in active markets for identical assets or liabilities;
Level 2 – fair values are based on inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
Level 3 – applies to assets and liabilities for inputs that are not based on observable market data, which are unobservable inputs.

Cash and cash equivalents are classified as a level 1 input. The Company does not use any hedging instruments.

l) Loss per share

The Company uses the treasury stock method for the computation and disclosure of loss per share. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under this method, it is assumed that proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate. Basic loss-per-share figures have been calculated using the weighted monthly average number of shares outstanding during the respective periods. Diluted loss-per-share figures are equal to those of basic loss per share for each year since the effect of options would be anti-dilutive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

m) Stock-based compensation
Stock-based compensation is accounted for at fair value as determined by the *Black-Scholes Option Pricing Model* using amounts that approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to operations as awards vest, with offsetting amounts recognized as contributed surplus.

n) Comparative figures
Certain comparative figures have been reclassified to conform with the current year's presentation.

o) Adoption of New Accounting Policies and New Accounting Standards

i) *Adoption of New Accounting Policies*
The Company did not adopt any new significant accounting policies during the year.

ii) *New Accounting Standards*
a) International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standards Board confirmed that the use of IFRS will be required in 2011 for public companies in Canada (i.e., IFRS will replace Canadian generally accepted accounting principles for public companies). The official changeover date will apply for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. The Company became a public company subsequent to year-end (Note 14) and therefore will be adopting these requirements for its fiscal year beginning January 1, 2011. The Company has determined that the key elements of this IFRS changeover on the Company will be in the areas of accounting for deferred financing costs, accounting for income taxes, determination of functional currencies within the consolidated group and general IFRS disclosure requirements. The Company is in the process of finalizing the specific impact on the Company's financial reporting.

b) Business Combinations—CICA Section 1582, Consolidated Financial Statements—CICA Section 1601 and Non-controlling Interests—CICA Section 1602. In January, 2009, the CICA issued Section 1582, "Business Combinations" which will provide the Canadian equivalent to IFRS 3, "Business Combinations" and will replace the existing Section 1581, "Business Combinations". The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year in which case an entity would also be required to early adopt Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests".

The adoption of these new standards will not have a significant impact on the Company's financial statements.

3. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents as of December 31 are as follows:

	2010	2009
	$	$
Cash	125,751	136,665
Guaranteed investment certificates	1,401,151	800,285
	1,526,902	**936,950**

4. DEFERRED FINANCING COSTS

Deferred financing costs relate to costs incurred in the preparation of the Company completing its IPO (Note 14).

5. EQUIPMENT

	2010	2009
	$	$
Field equipment	61,862	18,564
Less: accumulated amortization	(25,780)	(13,544)
	36,082	**5,020**

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES

A summary of costs incurred on the Company's mineral properties at December 31, 2010 and December 31, 2009 is as follows:

	2010	**2009**
	$	**$**
Tanzania		
Wigu Hill	1,567,664	291,204
Iringa	182,303	161,548
Liwale	289,397	290,897
Minjingu	-	1
South Africa		
Phosco	226,708	-
Canada		
Girard	1,131,688	975,168
Lac Yvonne	71,726	56,715
	3,469,486	**1,775,533**

a) Tanzania

Wigu Hill JV Project

On May 26, 2008, 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. In order to exercise this option (the "First Option"), the Company must incur exploration expenditures of USD $3.5 million over a 3 year period (or alternatively complete a prefeasibility study) and make option payments of USD $20,000 on each six month anniversary of the agreement. The Company has the further right to earn an additional 10% interest in the project for a USD $2 million payment (payable in cash or, by mutual agreement, publicly traded shares of the Company). After the First Option is exercised, a joint venture will be formed, the terms of which will provide for dilution subject to a deemed expenditure formula and, where a party's interest is diluted to less than 10%, conversion of such interest to a 2.5% net smelter returns royalty ("NSR"). The Company has the right to purchase all or part of the NSR for USD $1 million per each 0.5%.

On June 30, 2009, an addendum to the agreement was signed whereby a further 18 month extension for the First Option period was agreed to expire November 28, 2012 and the exclusive right payments were increased from USD $20,000 to USD $30,000 on the bi-annual anniversaries.

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES – *Continued*

Wigu Hill JV Project – *Continued*

On April 27, 2010, the Company signed a further amendment to the Wigu Hill project agreement amending the First Option such that the Company, in order to exercise the option, must make a final payment of USD $150,000 to RSR on or before April 30, 2010 (paid). No other option payments or exploration expenditures are required in order for the Company to exercise the First Option. After the exercise of the First Option, RSR will transfer the prospecting licenses comprising the Wigu Hill Project (the "Licences") to the newly-formed joint venture and the Company will concurrently pay RSR a further USD $50,000 (paid). After transfer of the Licences, the Company shall become obligated to incur exploration expenditures of USD $3.5 million (or alternatively complete a prefeasibility study) on or before November 28, 2012. The terms remain unchanged for the Company to earn an additional 10% interest in the project, except that the date by which the Company has to complete these requirements was extended to January 27, 2013.

The Company is in the process of establishing the joint venture and transferring the Licences.

Iringa, Liwale and Minjingu 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 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 $26,085 as an impairment loss. During the year ended December 31, 2009, the Company decided not to pursue exploration in one of the licence areas of Iringa and wrote off the related mineral properties and exploration expenditures costs of $65,518 as an impairment loss.

In conjunction with the same agreements noted above, in 2007 the Company acquired one licence comprising the Minjingu prospect by the payment of USD $6,250 and the issuance of 200,000 common shares valued at $40,000. However, the Government of Tanzania, through the Ministry of Energy and Minerals, rescinded the Notification of Grant of a Mineral Right in the Minjingu area that was originally granted to the Company. Accordingly, the Company recorded an impairment on this property representing costs spent to date of $465,417 effective for the year ended December 31, 2008. The Company lodged an appeal with the Ministry of Energy and Minerals for restitution of the license or compensation thereof. Since this dispute has not been resolved, the Company received consent from the Ministry of Energy and Mines of Tanzania on March 11, 2010 and completed a sale of its subsidiary, Montero Tanzania, to Minjingu Trust Limited, a company which has a director in common with the Company, for proceeds of $1, resulting in a gain on disposition of $19,638. The only asset involved in this sale was the revoked licence comprising the Minjingu licence area, which was previously impaired by the Company to a book value of $1.

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES – *Continued*

b) South Africa

Phosco Project

On May 7, 2010, the Company's subsidiary, Montero Projects Limited ("Montero Projects"), entered into a binding term sheet agreement with Eurozone Investments Limited ("Eurozone"), whereby Montero Projects has the exclusive right to acquire the shares in Eurozone's subsidiary, Mellosat (Pty) Limited ("Mellosat"). Mellosat and its subsidiaries holds interests in 4 phosphate exploration projects in South Africa (the "Phosco assets"). The Company paid $100,000 to Eurozone in consideration for receiving an exclusivity period to conduct due diligence. In September, 2010, the Company and Eurozone agreed to rescind the May 7, 2010 agreement in order to extend the due diligence period. On October 18, 2010, Montero Projects entered into a new binding term sheet agreement with Celtic Trust Company Limited ("Celtic"), the parent company of Eurozone, whereby Montero Projects has the exclusive right to acquire the shares of Eurozone, whose subsidiaries own the Phosco assets. The exclusivity period of nine months to complete due diligence commenced on October 18, 2010 and expires on July 18, 2011. The consideration for receiving this exclusivity period is covered by the payment to Eurozone of $100,000 noted above. On or before July 18, 2011, the expiry of the exclusivity period, the Company must allot and issue 5 million common shares of the Company if it plans to proceed with the acquisition of Mellosat.

All preliminary costs of this transaction totalling $226,708 have been classified as mineral properties and exploration expenditures at this time. If the transaction does not proceed at the end of the exclusivity period on July 18, 2011, these costs will be charged to operations.

c) Canada

Girard Claim Area

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 are also required totaling $235,000 and payable on or before November 7 each year as follows: $35,000 – 2007 (paid); $65,000 – 2008 (paid); $115,000 – 2009; $10,000 – 2010 and $10,000 – 2011. On July 10, 2009, the Company entered into an agreement whereby the remaining payments to be paid as follows: $115,000 – May 7, 2010; $10,000 – May 7, 2011 and $10,000 – May 7, 2012. On May 7, 2010 the Company issued 1,000,000 common shares valued at $135,000 to the vendor in lieu of the acquisition payments owing.

The claims are subject to a 2% 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.

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES – *Continued*

Lac Yvonne Claim Area

On March 14, 2008, the Company entered into a purchase and sale agreement to acquire a 100% interest in the Lac Yvonne claims located in Quebec for consideration of 100,000 common shares (issued) valued at $35,000.

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.

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES – *Continued*

The following is a summary of the cumulative acquisition and exploration costs incurred by the Company related to its mineral properties:

		TANZANIA		SOUTH AFRICA	QUEBEC		
	Wigu Hill	**Iringa**	**Liwale**	**Phosco**	**Girard**	**Lac Yvonne**	**TOTAL**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Acquisition Costs	354,721	204,404	254,356	157,588	897,336	36,666	**1,905,071**
Exploration Costs							
Drilling costs	113,379	—	—	—	—	—	**113,379**
Field and camp costs	213,416	7,554	10,322	250	20,734	5,965	**258,241**
Geochemical and metallurgical	125,573	5,409	7,037	—	110,220	2,473	**250,712**
Geological consulting	502,874	22,635	35,799	50,750	127,921	13,217	**753,196**
Geophysical and maps	36,282	—	—	10,077	—	5,798	**52,157**
Maintenance and environmental	882	16	8	906	28,335	10,092	**40,239**
Motor vehicle costs	119,314	4,767	3,358	1,183	—	—	**128,622**
Project administration costs	35,791	607	2,205	—	—	—	**38,603**
Telephone and communication	9,680	139	83	265	381	—	**10,548**
Travel and accommodation	55,752	2,290	2,314	5,689	30,775	3,219	**100,039**
	1,212,943	43,417	61,126	69,120	318,366	40,764	**1,745,736**
Recovery of exploration costs							
Tax credits	—	—	—	—	(84,014)	(5,704)	**(89,718)**
Impairment	—	(65,518)	(26,085)	—	—	—	**(91,603)**
Total costs, December 31, 2010	**1,567,664**	**182,303**	**289,397**	**226,708**	**1,131,688**	**71,726**	**3,469,486**

6. MINERAL PROPERTIES AND EXPLORATION EXPENDITURES – *Continued*

	TANZANIA				QUEBEC		
	Wigu Hill	Iringa	Liwale	Minjingu	Girard	Lac Yvonne	TOTAL
	$	$	$	$	$	$	$
Acquisition Costs	119,455	183,716	229,839	1	758,955	36,094	1,328,060
Exploration Costs							
Drilling costs	—	—	—	—	—	—	—
Field and camp costs	35,603	7,554	10,322	—	20,734	2,869	77,082
Geochemical and metallurgical	4,128	5,409	7,037	—	110,220	423	127,217
Geological consulting	99,531	22,635	35,799	—	119,668	9,118	286,751
Geophysical and maps	599	—	—	—	—	—	599
Maintenance and environmental	—	—	—	—	2,000	5,461	7,461
Motor vehicle costs	20,947	4,767	3,358	—	—	—	29,072
Project administration costs	4,349	556	2,145	—	—	—	7,050
Telephone and communication	496	139	83	—	381	—	1,099
Travel and accommodation	6,096	2,290	2,314	—	30,775	2,750	44,225
	171,749	43,350	61,058		283,778	20,621	580,556
Recovery of exploration costs							
Tax credits	—	—	—	—	(67,565)	—	(67,565)
Impairment	—	(65,518)	—	—	—	—	(65,518)
Total costs, December 31, 2009	291,204	161,548	290,897	1	975,168	56,715	1,775,533

7. SHARE CAPITAL

Authorized
Unlimited number of common shares without par value.

Issued and outstanding

	Number of Shares	Amount $
Balance, December 31, 2008	13,035,001	2,791,001
Shares issued for debt settlement	635,000	127,000
Shares issued for cash	11,083,340	1,330,001
Shares issue costs	-	(72,758)
Balance, at December 31, 2009	24,753,341	4,175,244
Shares issued for debt settlements	1,112,389	143,237
Shares issued for mineral property	1,000,000	135,000
Shares issued for cash	7,450,000	2,912,500
Value of warrants reclassified	-	(388,603)
Share issue costs	-	(75,363)
Balance, at December 31, 2010	**34,315,730**	**6,902,015**

(i) On July 15, 2009, the Company issued 635,000 common shares valued at $0.20 per share to settle amounts owing to directors, officers and/or companies controlled by them totalling $127,000.

(ii) On November 6, 2009, the Company issued 11,083,340 common shares at a price of $0.12 per share for cash proceeds of $1,330,001.

(iii) On January 14, 2010, 462,335 common shares were issued at $0.12 per share pursuant to the Share Debt Exchange agreements signed on December 31, 2009 with directors, officers and companies controlled by them to settle amounts owing totalling $55,480. This amount was recorded as an obligation to issue shares as of December 31, 2009 (Note 8).

(iv) On March 31, 2010, certain directors, officers, consultants and/or companies controlled by them entered into Share for Debt Exchange agreements with the Company for the settlement of accrued consulting and director fees through the issuance of common shares. A total of 650,054 common shares were issued at $0.135 per share to settle amounts payable totalling $87,757.

(v) On May 7, 2010, the Company satisfied its remaining obligations with respect to the Girard claims in Quebec by issuing 1,000,000 common shares valued at $135,000 which covers all of the remaining payments due.

(vi) On June 16, 2010, the Company completed a private placement financing by issuing 3,250,000 common shares at $0.25 per share for cash proceeds of $812,500.

(vii) On November 10, 2010, the Company completed a private placement financing by issuing 4,200,000 Units $0.50 per unit for cash proceeds of $2,100,000. 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 $0.70 per share until November 10, 2012. In addition, 91,000 Broker Warrants were issued to an arm's length party in connection with the private placement. Each such Broker Warrant entitles the holder to acquire one Unit for $0.50 until November 10, 2012. Each such Unit consisted of one share and one-half of a warrant,

7. SHARE CAPITAL – *Continued*
Issued and outstanding - *Continued*
(vii) – *Continued*

each whole warrant entitling the holder to acquire one share for $0.70 until November 12, 2012. A finders' fee of $45,500 was paid in conjunction with this financing. The Company valued the warrants and the Broker Warrants issued in connection with this private placement using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.70%; volatility 85%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of $388,603 attributable to the warrants has been reclassified from share capital and charged to contributed surplus. The resultant value of $8,420 attributable to the Broker Warrants has been charged to share issue costs and contributed surplus.

Stock options

The Company has established a Stock Option Plan (the "Plan") for directors, officers, employees and consultants. The number of common shares that are available for grants of options under the Plan shall not at any time exceed 10% of the number of outstanding common shares, calculated at the time of grant. Options granted under the Plan generally have a term of five years and vest on the date of the grant.

A summary of the continuity of the Company's stock options is as follows:

	2010		**2009**	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		$		**$**
Options outstanding, beginning of year	975,000	0.15	1,050,000	0.15
Granted	1,550,000	0.17	-	-
Expired	(300,000)	0.15	(75,000)	(0.15)
Options outstanding and exercisable, end of year	2,225,000	0.16	975,000	0.15

On January 25, 2010, the Company repriced all of its then outstanding stock options totalling 975,000 stock options, to an exercise price of $0.15 per share. The comparative figures above are adjusted to reflect this price adjustment.

During the year ended December 31, 2010, the Company granted 1,300,000 stock options with an exercise price of $0.15 per share and 250,000 stock options with an exercise price of $0.25 per share.

7. SHARE CAPITAL – *Continued*

Stock options – *Continued*

The fair value of the stock options granted, as well as the incremental value resulting from the repricing of the stock options, has been estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.33% and an expected average life of 5 years. The resultant charge of $167,109 has been charged to stock-based compensation expense.

These stock options expire as follows: 675,000 in 2013 and 1,550,000 in 2015.

Warrants

A summary of the continuity of the Company's warrants is as follows:

	2010		2009	
	Number of Shares Issuable	Weighted Average Exercise Price $	Number of Shares Issuable	Weighted Average Exercise Price $
Warrants outstanding, beginning of year	-	-	-	-
Granted	2,145,500	0.70	-	-
Expired	-	-	-	-
Warrants outstanding, end of year	2,145,500	0.70	-	-

These warrants expire in 2012.

8. OBLIGATION TO ISSUE SHARES

At December 31, 2009, the Company had an obligation to issue 462,335 common shares valued at $0.12 per share to settle amounts owing to related parties totalling $55,480. These common shares were issued on January 14, 2010 (Note 7).

9. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	$
Balance, December 31, 2009 and 2008	305,172
Stock-based compensation expense	167,109
Fair value of warrants issued with private placement	388,603
Fair value of Broker Warrants issued with private placement	8,420
Balance, December 31, 2010	**869,304**

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010 and 2009, the Company incurred the following transactions with directors, officers or companies in which the directors have significant influence and interests:

	2010 $	2009 $
Geological consulting fees and other exploration expenditures	450,334	66,738
Accounting and administrative wages	39,045	13,443
Directors' fees	18,242	15,209
Investor relations	31,489	-
Management fees	203,351	112,027
Project investigation costs	41,475	10,400
Rent and occupancy costs	22,649	-

These transactions were in the normal course of business and were measured at the exchange amount, which is the amount established and agreed to by the related parties.

The amounts due to related parties represent amounts due to directors and officers or companies in which the directors have significant influence and interests, for management fees and reimbursement of costs. These amounts are unsecured, non-interest bearing and due on demand.

11. INCOME TAXES

The reported income tax differs from the amount computed by applying the combined Canadian federal and provincial statutory tax rates to the net loss. A reconciliation of current taxes at statutory rates with the reported taxes is as follows based on an income tax rate of 30% [2009 – 31%]:

	2010 $	2009 $
Net loss for the year	(932,862)	(390,410)
Expected tax recovery at statutory rates	(279,859)	(121,027)
Decrease resulting from:		
Permanent differences	69,084	4,091
Income tax rate changes	10,297	18,675
Change in valuation allowance	126,700	96,308
Other	73,778	1,953
Income tax recovery	-	-

The significant components of the Company's future income tax assets and liabilities are as follows:

	2010 $	2009 $
Non-capital losses carried forward	642,440	409,895
Mineral properties, exploration expenditures and equipment	(95,673)	9,552
Other	30,353	30,973
Total	577,120	450,420
Valuation allowance	(577,120)	(450,420)
	-	-

The Company has cumulative Canadian exploration and development expenditures of $1,444,000 and Canadian non-capital losses of $2,109,000 which may be offset against future income for income tax purposes. The exploration and development expenditures may be carried forward indefinitely and the non-capital losses expire in varying amounts in years from 2026 to 2030.

The Company has Tanzanian resource deductions of $1,632,000 and non-capital losses of $405,000 which may be offset against future income for income tax purposes. The resource deductions are claimed annually and accumulate as losses which may be carried forward indefinitely.

Management has determined that the realization of these future income tax assets is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential future income tax asset.

12. SEGMENTED INFORMATION

All of the Company's operations are in the mineral properties exploration industry with its principal business activity in the acquisition and exploration of mineral properties. The Company conducts its resource properties exploration activities primarily in Canada, Tanzania and South Africa. The location of the Company's assets by geographic area as of December 31, 2010 and 2009 is as follows:

	2010 $	2009 $
Canada	2,960,151	1,986,790
Tanzania	2,102,401	760,444
South Africa	226,708	-
BVI	6,500	-
	5,295,760	**2,747,234**

13. MANAGEMENT OF CAPITAL AND RISK MANAGEMENT

Management of Capital

The Company manages its capital to ensure that it will be able to continue as a going concern, while maximizing the return to stakeholders through the optimization of the issuance of equity instruments. The capital of the Company consists of equity attributable to common shareholders comprised of share capital and stock options.

In order to facilitate the management of capital and exploration of its mineral properties, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. The Company also focuses its efforts in the areas that are the most geologically attractive. The Company may issue new equity for cash, to acquire mineral properties or to settle indebtedness, as best determined by management. Management may decide to option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements to share the exploration risk or dispose of mineral properties. 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. In order to maximize ongoing exploration efforts, the Company does not pay dividends. The Company was successful in completing its IPO subsequent to year-end (Note 14) and expects to raise funds as required from public markets to meet its capital management objectives.

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

Risk Management

Industry Risk: The Company is engaged primarily in the mineral exploration field. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements, however environmental laws and practices are complex and there is no certainty that all exposure to liability or costs have been mitigated.

13. MANAGEMENT OF CAPITAL AND RISK MANAGEMENT – *Continued*

Credit Risk: Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash and cash equivalents. This risk relating to cash is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies.

Currency Risk: 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 primarily operates in Canada and Tanzania and portions of its expenditures are incurred in US dollars and Tanzanian Shillings. Due to the uncertainty and relative devaluation of the local currency in Tanzania, most significant transactions are conducted in US dollars. Consequently, the Company is primarily exposed to changes in the Canadian dollar (CAD) compared to the United States dollar (USD). A significant fluctuation in the exchange rate of the USD compared to the CAD 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, i.e., the USD:

	2010 $	2009 $
Cash and cash equivalents	25,863	16,794
Prepaid expenses and deposits	1,092	-
Accounts payable and accrued liabilities	(130,193)	(59,820)
	(103,238)	**(43,026)**

Based on the above net exposures at December 31, 2010, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a $10,324 (2009 – $4,303) increase or decrease in the Company's net loss.

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 as these accrue interest at variable rates.

Liquidity and Funding 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 capital in order to meet its liquidity requirements. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as significant.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the following transactions took place.

i) 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 approximately $345,000 netting the Company approximately $3,655,000 of cash. 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.

ii) On February 10, 2011, the Company granted 1,475,000 stock options to directors, officers and consultants of the Company which are exercisable at $0.50 per share until February 10, 2016.