MONTERO MINING AND EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended June 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 August 29, 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"). These condensed consolidated interim financial statements are the first 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 extent of the Wigu Hill carbonatite complex. Results include the:

    - Twiga Target trenching results returned high grade Total Rare Earth Oxide (TREO) values from numerous trenches confirming such mineralization over a strike of >200m, grading up to 13.28% TREO over 10.2m true width.
    - Twiga Target drilling results confirmed continuity of the mineralized dikes in depth with one intersection grading 6.23% TREO over a true width of 20.76m.
    - Tumbili Target includes an extensive carbonatite breccia zone with trenching establishing TREO values of up to 7.58%.

- The Company is continuing with the geological due diligence on the Phosco mineral project in South Africa after completing a 1,140 metres drilling program. Evaluation work on a preliminary geological model continues and Montero is currently negotiating an extension to this agreement.

- Exploration cash expenditures of $875,340 were made during the three months ended June 30, 2011 compared to exploration cash expenditures of $650,955 for the three months ended June 30, 2010, with the majority being spent on the Wigu Hill project in Tanzania.

- Montero's operating expenses increased from $251,576 for the three months ended June 30, 2010 to $420,526 for the three months ended June 30, 2011 due to increased activity in the Company's operations.

- The Company recorded a net loss of $424,682 ($0.01 per share) for the three months ended June 30, 2011 compared to a net loss of $263,790 ($0.01 per share) for the three months ended June 30, 2010. Cumulatively for the six months ended June 30, 2011, Montero recorded a net loss of $1,578,090 ($0.04 per share) compared to a net loss of $508,649 ($0.02 per share) for the six months ended June 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 one wholly-owned subsidiary operating in Tanzania — Montero Resources Limited (incorporated in Tanzania on November 5, 2007) as well as three wholly-owned holding companies incorporated in the British Virgin Islands ("BVI") – Montero Resource Holding Limited (incorporated in BVI on April 26, 2010), Montero Projects Limited (incorporated in BVI on May 3, 2010). Wigu Hill (BVI) Limited (incorporated in BVI on May 13, 2011) and Montero Wigu Hill (Tanzania) Limited (incorporated in Tanzania on June 20, 2011) have been formed in the process of structuring the joint venture on the Wigu Hill project (Note 5a)).

Montero is a public company listed on the TSX Venture Exchange 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 85 years of exploration experience and have been part of more than 4 discoveries that have found mineral resources and gone into production. Subsequent to the quarter-end, one of the Company's directors resigned.

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 strengths to acquire exploration and evaluation assets that can be tested, further explored to target a resource and ultimately brought into production, although there are no assurances that this will occur. These can be acquired through assessment of projects offered to the Company, literature research or conceptual models. The appropriate exploration/development strategies for each style of deposit and mineral occurrences with time frame and key decision points throughout the year are applied. During periods where the Company's cash resources are limited and the markets are not receptive to financing, the Company continues with minimum exploration requirements on the exploration and evaluation assets to maintain the licences in good standing.

Our Exploration Results for the 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 Licenses which have been reduced in size and currently cover an area of 55.54km^2 (Wigu PL3379: 15.25km^2 & Nyarutanga PL4834: 40.59km^2) straddling Wigu Hill itself and a contiguous area to the south. Re-applications have been submitted for the areas that were relinquished which are 86.04km^2 in extent.

On May 26, 2008 (amended June 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"). The terms and conditions of the final amended agreement on April 27, 2010 are outlined as follows. In order to exercise the First Option, the Company must pay United States Dollars ("USD") $150,000 on or before April 30, 2010 (paid). The Company has now duly and validly exercised the First Option. After the exercise of the First Option, RSR will transfer the prospecting licences 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 January 27, 2013. When the joint venture is formed, the terms will provide for dilution 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 data entered into the Access database was verified prior to handing it over to AMEC Earth & Environmental UK Ltd. (AMEC) to commence a Resource assessment on the mineralised carbonatites from these two target areas. In addition, all surface geological maps and data, assay data, trench profiles and borehole sections were handed over to AMEC for use in the development of a geological model of the Carbonatite Dikes in these two target areas. The resource model is at an advanced stage of development and work is now focussed on delineating a resource using the interpretations made to date. In parallel, a NI 43-101 compliant resource report is being compiled by AMEC.

This assessment has been complex, as in many cases it is difficult to follow individual carbonatite dikes for any distance. However, it is possible to trace out groups of dikes in the form of a zone with interstitial altered gneiss material which in places is also mineralised.

The focus of exploration has shifted to the Tumbili Target, located immediately to the west of the Tembo target. At the end of Q1 reconnaissance geological mapping was undertaken to assess the continuity of the extensive carbonatite breccia zones mapped at surface and the massive zones of dolomitic carbonatite. These zones were confirmed to have continuity along strike over a distance of up to 1.2km and also over a width of >500m. Road access had been established in Q1, but after the rainy season, substantial repairs were required to the road before a drill could be mobilised to the proposed drill sites. In the meantime a programme of more detailed mapping and of trenching commenced. By the end of the quarter, 10 long trenches had been completed. One batch of trench samples was submitted for analysis and results are pending. Drilling commenced early in May (refer to press release July 7, 2011) and by the end of the quarter 4 core boreholes had been completed and a 5th had started. These are summarised as follows:

BH TUM001	200.40m	Carbonatite breccia
BH TUM002	253.80m	Carbonatite breccia
BH TUM003	165.20m	Carbonatite breccia, carbonate altered gneisses.
BH TUM004	334.10m	Carbonatite breccia with dolomitic carbonatite
BH TUM005	50.05m	
Total drilling	1,003.55m	

The first three boreholes intersected extensive carbonatite breccia material. Bastnaesite and also monazite mineralisation can be observed in some of the ferruginous carbonatite boulders and clasts within the breccia. However, it is difficult to assess the extent of the mineralisation. The easternmost borehole, TUM003 was able to define the southernmost limit of the breccia zone by intersecting carbonate altered gneisses. A batch of samples from 3 core borehole and 3 trenches was submitted for analysis in mid-June.

Borehole TUM004 also intersected abundant carbonatite breccia, but also located significant amounts of dolomitic carbonatite, with visible mineralisation localised to small areas in the core. In early July samples for BH TUM004 were submitted for analysis together with samples from 2 trenches.

Mapping trenching and drilling activities continue into Q3.

The 2nd phase of leach test work being undertaken by Mintek in Johannesburg, South Africa was completed during Q2. The results of this initial test work have been positive and have been assessed in depth to define the objectives and requirements to undertake a 3rd phase of optimisation leach tests to improve the efficiency of each stage and to secure a mixed rare earth solution as a final product. A proposal from Mintek for the 3rd phase test work commenced at the end of Q2. The report on the 2nd phase test work is undergoing final edits prior to release.

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 Q2 the environmental management plan commenced by the Tanzanian environmental consultant with preliminary site visits and reports. The final ornithology report was received for the baseline study undertaken at the end of Q1.

A sustainability manager was appointed at the end of Q2 (refer press release June 23, 2011). His responsibilities include forward planning and improvements to operational procedures and maintenance of facilities at the Wigu Hill project.

During the six months ended June 30, 2011, the Company had incurred cumulative acquisition costs of $332,863 which represents the commitment under the agreement of the option payments and the annual renewal licence fees. Cumulative exploration expenditures of $2,757,127 were incurred as of June 30, 2011 and included, geological mapping, trenching, drilling, geochemical and metallurgical, costs for the operational field camp and exploration programs.

The exploration program including drilling, trenching, metallurgical test work and environmental studies, as detailed above, continues subsequent to quarter ended June 30, 2011.

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 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 Kilombera 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 and the fieldwork is currently in progress.

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 Licenses currently held by Montero straddle one of the potential uranium trends within the Karoo Sedimentary Basin. A more detailed assessment of this area has identified adjacent areas where this trend continues. Further work on these targets will be considered once the initial assessment of the Iringa area has been completed.

During the six months ended June 30, 2011, the Company incurred minimal expenditures on Iringa and Liwale projects, as it focused on Wigu Hill and Phosco. As at June 30, 2011, Montero had spent an accumulated total of $433,171 on Iringa and Liwale on acquisition and exploration costs.

South Africa

<u>Phosco project</u>

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 to be granted an exclusivity period of nine months, expiring on July 18, 2011, to complete due diligence on the Phosco assets. On or before 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 this acquisition. The current agreement expired on July 18, 2011 and the Company is currently in negotiations to extend the agreement.

The Phosco project covers four phosphate exploration projects in South Africa, namely: Phillips Kraal, Duyker Eiland and Lamberts Bay in the Western Cape and Bierkraal in the Northwest Province. The due diligence reported 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 evaluations on the Duyker Eiland and Phillips Kraal project areas with a NI 43-101 compliant report is underway. Site visits were made by AMEC when drilling operations commenced and a subsequent visit to Scientific Services laboratories in Cape Town, South Africa. The AMEC QP visited site towards the end of Q1 to view the drill holes locations and to review the geological sampling, logging procedures and the initial assay results. The assays were submitted to Scientific Services and a comprehensive program of quality assurance and control was implemented (under the guidance of the AMEC QP) to include field and laboratory duplicates, standard inserts and blank inserts.

The assay results are undergoing a quality check and are being compiled with the geological logging. A preliminary geological model has been established and AMEC commenced work on the estimation model in May, 2011 and a NI 43-101 compliant resource study is underway.

As of June 30, 2011, Montero has spent a total of $556,474 on exploration and due diligence costs and these preliminary costs have been classified as exploration and evaluation assets since the Company is currently in negotiations to extend the agreement, the costs will be retained as exploration and evaluation assets. If it is determined that the transaction will not proceed, then these costs will be charged to operations.

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.

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 uranium grades to exist.

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 six months ended June 30, 2011, the Company spent minimal exploration funds on the property since it was focused on the Wigu Hill and Phosco projects. As of June 30, 2011, the Company incurred cumulative acquisition and exploration costs totaling $1,139,299.

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.

<u>Lac Yvonne Claim Area, Quebec</u>

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 by G.L Geoservice Inc. in order to enlarge the exploration area and a total of 19.25 line km of new magnetic data was reported.

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

The Company is considering further exploration work to include a valuation and assessment study in order to define exploration areas of interest.

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.

These consolidated financial statements have been prepared using IFRS applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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 these condensed consolidated interim financial statements.

As at June 30, 2011, the Company had an accumulated deficit of $4,621,500 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 shareholders and directors, the ability to continue to raise adequate funding to repay debts, 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.

Financial Performance

During the three months ended June 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, as well as the due diligence costs on the Phosco assets in South Africa. 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 $875,340 for the three months ended June 30, 2011 ($1,985,811 for the six months ended June 30, 2011) compared to $650,955 for the three months ended June 30, 2010 ($933,359 for the six months ended June 30, 2010). In addition $25,446 was spent on acquisition of equipment for the six months ended June 30, 2011 compared to $Nil for the six months ended June 30, 2010.

The Company's operating costs increased for the three months ended June 30, 2011 to $420,526 compared to $251,576 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 more 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 June 30, 2011, the Company had cash and cash equivalents on hand of $2,627,866 compared to $1,526,902 on December 31, 2010. The increase is primarily due to Montero successfully raising $4,000,000 in conjunction with the successful completion of its IPO. These funds, net of cash share issue costs of $390,400, are being used to fund its exploration programs, for operations and for general working capital purposes. Subsequent to the quarter-end, Montero raised funds totalling $5,892,800 through a non-brokered private placement. 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.

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 Q2 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 June 30, 2011 totaled $875,340 ($650,955 for the three months ended June 30, 2010), which was spent primarily on Wigu Hill and the Phosco project. 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 June 30, 2011 compared to the three months ended June 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 $77,301 for the quarter ended June 30, 2010 to $221,600 for the quarter ended June 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 $56,428 due to corporate strategy session and business development activities. Administrative fees increased by $51,375 due to higher administrative costs required in South Africa, Tanzania and BVI for administrative staff. Management fees increased by $26,375 due to increased time spent on the Company's activities as well as increased rates charged.

Other expenses increased from $27,627 for the quarter ended June 30, 2010 to $63,507 for the quarter ended June 30, 2011 primarily due to increased travel costs required due to more activity on the Company's projects in Tanzania and South Africa.

Shareholder and regulatory expenses increased from $10,533 for the quarter ended June 30, 2010 to $35,964 primarily due to various investor relations activities and regulatory charges for public companies.

Stock-based compensation is $Nil for the three months ended June 30, 2011 compared to $42,324 for the three months ended June 30, 2010 as no stock options were granted during the quarter.

The Company's net loss for the six months ended June 30, 2011 was $1,578,090, $0.04 per share, compared with a net loss of $508,649, $0.02 per share for the six months ended June 30, 2010.

Montero's **cash and cash equivalents** amounted to $2,627,866 at June 30, 2011 compared to $1,526,902 at December 31, 2010. Working capital was $1,966,818 at June 30, 2011 compared to $1,217,226 at December 31, 2010. The cash has increased since Montero completed a $4,000,000 financing in conjunction with the successful completion of its IPO. These funds, net of cash share issue costs of $390,400, are being used to fund its exploration programs, for operations and for general working capital purposes. Subsequent to the quarter-end, the Company raised a further $5,892,800 by a non-brokered private placement. 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 a director 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 six months ended June 30, 2011.

The Company has no contingent liabilities.

Segmented Information

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

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

As at June 30, 2011	**Canada**	**Tanzania**	**South Africa**	**Total**
	$	**$**	**$**	**$**
Exploration and evaluation assets	1,218,652	3,523,162	556,473	5,298,287
Property, plant and equipment	-	51,180	-	51,180
Total non-current assets	**1,218,652**	**3,574,342**	**556,473**	**5,349,467**

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**

1.5 SUMMARY OF QUARTERLY RESULTS

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
					(restated to IFRS)			
Consulting, directors', admin, mgt fees	221,600	148,319	86,827	84,211	77,301	67,268	49,496	14,500
Impairment of mineral pties	-	-	26,085	-	-	-	-	-
Prof fees	54,809	94,801	102,550	44,135	57,208	44,686	62,757	24,141
Other expenses	144,117	195,567	82,689	67,748	87,187	91,281	123,845	11,997
Stk based comp	-	713,711	-	-	42,324	124,785	-	-
Interest income/other	4,156	1,010	(1,181)	(293)	(230)	(83,161)	62,579	(1)
Net loss	$ (424,682)	$ (1,153,408)	$ (296,970)	$ (195,801)	$ (263,790)	$ (244,859)	$ (298,677)	$ (50,637)
Loss per share								
Basic & diluted	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Explor and evaln assets	$ 5,298,287	$ 4,423,501	$ 3,361,916	$ 3,103,252	$ 2,828,378	$ 2,002,391	$ 1,745,998	$ 1,612,906
Total assets	$ 8,140,212	$ 8,237,400	$ 4,996,548	$ 3,380,843	$ 3,473,082	$ 2,602,445	$ 2,693,628	$ 1,649,621
Total liabilities	$ 823,927	$ 503,512	$ 382,824	$ 417,308	$ 278,938	$ 174,367	$ 199,722	$ 175,740
Shareholders' equity	$ 7,316,285	$ 7,733,888	$ 4,613,724	$ 2,963,535	$ 3,194,144	$ 2,428,078	$ 2,493,906	$ 1,473,881

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 Q1 and Q2 2011 due to increased financial reporting costs including IFRS conversions, increased administrative support costs and increased management fees due to IPO bonus and increased rates charged. Professional fees are higher in Q4 2010 and Q1 2011 due to IPO costs, tax fees and IFRS conversion costs. Other expenses are higher in Q1 2011 due to shareholder and regulatory fees incurred to attend conferences and promote the company 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 2010 over the 2009 amounts due to increased exploration and administrative activity in the Company and preparations for the Company's IPO filing. Consulting, directors', administrative and management fees increased as more time was required to be spent on the Company by management as well as costs incurred for preparing the company for its IPO. Professional fees are required due to annual audits, tax advice, assistance with private placements and preparation of legal documents and the timing of these expenditures is dependent upon the timing of the private placement, execution of legal documents, etc., which is reflected in the above quarterly amounts.

1.6/1.7 LIQUIDITY AND CAPITAL RESOURCES

The Company held cash and cash equivalents of $2,627,866 as at June 30, 2011 compared to $1,526,902 as at December 31, 2010.

The Company used cash of $191,292 in its operations for the three months ended June 30, 2011 compared to using cash of $120,759 for the three months ended June 30, 2010. Montero spent $875,340 on investing activities on expenditures on exploration and evaluation assets and equipment for the quarter ended June 30, 2011 compared to spending cash of $650,955 on its investing activities related to expenditures on exploration and evaluation assets and equipment for the quarter ended June 30, 2010. The Company generated cash of $7,500 from its financing activities (exercise of stock options) for the quarter ended June 30, 2011 compared to raising cash of $812,500 for the comparative quarter ended June 30, 2010.

The Company has entered into a services agreement with a company which has a director 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 six months ended June 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 June 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. 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.

Subsequent to the quarter ended June 30, 2011 on August 3, 2011, the Company completed a non-brokered private placement financing by issuing 9,821,333 Units at $0.60 per Unit for cash proceeds of $5,892,800. Each Unit comprises one common 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. Finder's fees totalling $399,896 were paid in cash and 666,493 finder's warrants were issued. Each finder's warrant entitles the holder to purchase one Unit at $0.60 per Unit until August 3, 2013, each Unit with the same terms as described above.

As of June 30, 2011, Montero has 3,650,000 stock options outstanding at a weighted average exercise price of $0.30 per share and 6,425,500 warrants outstanding at a weighted average exercise price of $0.70 per share. Stock options totalling 50,000 were exercised during the quarter raising funds totalling $7,500. These securities may be a future source of funding depending upon the Company's trading stock price, although there are no assurances that this will occur.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

Montero does not utilize off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

The Company incurred the following transactions with management, directors, officers or companies which have directors in common, or in which the directors have significant influence and interests.

Key management personnel compensation

	Six months ended June 30	
	2011	**2010**
	$	**$**
Compensation of directors		
Short-term benefits	23,065	9,106
Share-based payments	184,800	58,000
	207,865	67,106
Compensation of key management personnel		
Short-term benefits	264,188	142,489
Share-based payments	408,000	105,250
	672,188	247,739
Total remuneration of directors and key management personnel	**880,053**	**314,845**

Related party transactions

	Six months ended June 30	
	2011	**2010**
	$	**$**
Exploration and evaluation asset transactions		
Geological consulting	242,168	191,861
Motor vehicle costs	99	12,160
Project administration costs	17,991	9,031
Total exploration and evaluation asset transactions	260,258	213,052
Operating expense transactions		
Consulting, directors', administrative and management fees	16,469	6,899
General and administrative	7,751	5,055
Project investigation costs	14,651	18,000
Shareholder and regulatory	9,722	21,800
	48,592	51,754
Total trading transactions with related parties	**308,850**	**264,806**

Related party balances

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

	June 30 2011	**December 31 2010**
	$	**$**
Due to related parties	**81,557**	**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.

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.

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

		December 31, 2010			January 1, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$	$	$	$
Exploration and 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**

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

	Notes	December 31 2010	June 30 2010	January 1 2010
		$	$	$
Shareholders' equity reported under Canadian GAAP		4,912,936	3,269,708	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)	(15,514)	(29,535)
Difference arising from accounting treatment of deferred financing costs	22 b)	(190,142)	(60,050)	(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**	**3,194,144**	**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)**

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

		Three months ended June 30, 2010			Six months ended June 30, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$	$	$	$
Expenses	22 b)	237,106	14,470	251,576	550,864	28,479	579,343
Operating loss	22 b)	(237,106)	(14,470)	(251,576)	(550,864)	(28,479)	(579,343)
Other items		(12,214)	-	(12,214)	7,831	-	7,831
Loss before income taxes	22 b)	(249,320)	(14,470)	(263,790)	(543,033)	(28,479)	(571,512)
Deferred income tax recovery	22 c)	-	-	-	-	62,863	62,863
Net loss	22 b) c)	(249,320)	(14,470)	(263,790)	(543,033)	34,384	(508,649)
Exchange difference on translating foreign operations	22 e)	-	40,032	40,032	-	14,021	14,021
Comprehensive loss		**(249,320)**	**25,562**	**(223,758)**	**(543,033)**	**48,405**	**(494,628)**

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 six months ended June 30, 2010 have determined that $28,479 ($14,470 for the three months ended June 30, 2010) relate to professional fees which have been charged to expense and $7,500 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 six months ended June 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 six months ended June 30, 2010.

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 $(50,160) for the six months ended June 30, 2011 (six months ended June 30, 2010 - $14,021; three months ended June 30, 2010 - $40,032) 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 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 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 $10,042 (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:

	June 30 2011	**December 31 2010**
	$	**$**
Cash and cash equivalents	138,358	25,863
Prepaid expenses and deposits	22,224	1,092
Trade and other payables	(715,292)	(130,193)
	(554,710)	**(103,238)**

Based on the above net exposures at June 30, 2011, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a $55,471 (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.

1.15 OTHER MD&A REQUIREMENTS

DISCLOSURES FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The information required on the Company's exploration and evaluation assets are readily available from the Company's condensed consolidated interim financial statements for the six months ended June 30, 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 six months ended June 30, 2011. The number of common shares outstanding as of the date of this report on August 29, 2011 is 52,187,063 shares.