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**MONTERO MINING AND EXPLORATION LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**September 30, 2011 and 2010**

**Expressed in Canadian Dollars**

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The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of the management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars – unaudited)

	Notes	Sept 30 2011	December 31 2010 (Note 22)
<b>ASSETS</b>		<b>\$</b>	<b>\$</b>
<b>Non-current assets</b>			
Exploration and evaluation assets	5	7,863,032	3,361,916
Property, plant and equipment	6	79,537	34,582
Total non-current assets		7,942,569	3,396,498
<b>Current assets</b>			
Prepaid expenses and deposits		113,364	41,308
Trade and other receivables	7	27,018	31,840
Cash and cash equivalents	8	5,273,613	1,526,902
Total current assets		5,413,995	1,600,050
<b>TOTAL ASSETS</b>		<b>13,356,564</b>	<b>4,996,548</b>
 <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to the owners of the parent</b>			
Share capital	9	12,955,504	6,867,365
Obligation to issue shares	9	-	-
Warrants	10	3,365,512	397,023
Share-based payment reserve	11	1,185,992	472,281
Foreign currency translation reserve	12	153,440	(79,535)
Accumulated deficit		(5,229,833)	(3,043,410)
Total shareholders' equity		12,430,615	4,613,724
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	925,949	382,824
Total liabilities		925,949	382,824
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>13,356,564</b>	<b>4,996,548</b>

**On behalf of the Board:**

*"Antony Harwood"*

Antony Harwood, Director

*"Antonia J Chapman"*

Antonia J Chapman, Director

See accompanying notes to the consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars – unaudited)

	Notes	Three months ended		Nine months ended	
		Sept 30	Sept 30	Sept 30	Sept 30
		2011	2010	2011	2010
		(Note 22)		(Note 22)	
		\$	\$	\$	\$
<b>EXPENSES</b>					
Consulting, directors', administrative and management fees	17	303,895	84,211	673,814	228,780
Depreciation		4,630	1,393	12,758	4,177
General and administrative	17	41,493	18,168	106,753	67,597
Other expenses		59,107	29,192	165,308	92,868
Professional fees		65,896	44,135	215,506	146,029
Project investigation costs	17	46,735	7,051	102,151	25,867
Shareholder and regulatory	17	110,486	5,539	215,165	36,605
Stock-based compensation	11	-	-	713,711	167,109
<b>OPERATING LOSS</b>		<b>(632,242)</b>	<b>(189,689)</b>	<b>(2,205,166)</b>	<b>(769,032)</b>
<b>OTHER ITEMS</b>					
Gain on sale of subsidiary		-	-	-	19,638
Interest income		14,232	293	27,943	1,183
Foreign exchange		9,677	(6,405)	(9,200)	(19,102)
		23,909	(6,112)	18,743	1,719
<b>LOSS BEFORE INCOME TAXES</b>		<b>(608,333)</b>	<b>(195,801)</b>	<b>(2,186,423)</b>	<b>(767,313)</b>
<b>DEFERRED INCOME TAX RECOVERY</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>62,863</b>
<b>NET LOSS</b>		<b>(608,333)</b>	<b>(195,801)</b>	<b>(2,186,423)</b>	<b>(704,450)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange difference on translating foreign operations	12	283,135	(32,658)	232,975	(18,637)
<b>COMPREHENSIVE LOSS</b>		<b>(325,198)</b>	<b>(228,459)</b>	<b>(1,953,448)</b>	<b>(723,087)</b>
<b>LOSS PER SHARE – BASIC AND DILUTED</b>	15	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>	<b>\$ (0.03)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>		<b>44,452,314</b>	<b>30,115,730</b>	<b>43,229,786</b>	<b>27,424,420</b>

See accompanying notes to the consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian dollars – unaudited)

		Share Capital		Warrants	Share Based Payment Reserve	Foreign Currency Translation Reserve	Other Components of Equity	Accumulated Deficit	TOTAL EQUITY
	Note	Number of Shares	\$	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2009</b>	22	24,753,341	4,175,244	—	305,172	—	55,480	(2,041,990)	<b>2,493,906</b>
Shares issued for:									
Cash		3,250,000	812,500	—	—	—	—	—	<b>812,500</b>
Debt settlements		1,112,389	143,237	—	—	—	(55,480)	—	<b>87,757</b>
Exploration and evaluation assets		1,000,000	135,000	—	—	—	—	—	<b>135,000</b>
Share issue costs		—	(9,650)	—	—	—	—	—	<b>(9,650)</b>
Stock-based compensation		—	—	—	167,109	—	—	—	<b>167,109</b>
Net loss and comprehensive loss		—	—	—	—	(18,637)	—	(704,450)	<b>(723,087)</b>
<b>Balance, September 30, 2010</b>	22	<b>30,115,730</b>	<b>5,256,331</b>	—	<b>472,281</b>	<b>(18,637)</b>	—	<b>(2,746,440)</b>	<b>2,963,535</b>
Shares issued for:									
Cash		4,200,000	2,100,000	—	—	—	—	—	<b>2,100,000</b>
Share issue costs		—	(100,363)	8,420	—	—	—	—	<b>(91,943)</b>
Fair value of warrants issued		—	(388,603)	388,603	—	—	—	—	<b>—</b>
Net loss and comprehensive loss		—	—	—	—	(60,898)	—	(296,970)	<b>(357,868)</b>
<b>Balance, December 31, 2010</b>	22	<b>34,315,730</b>	<b>6,867,365</b>	<b>397,023</b>	<b>472,281</b>	<b>(79,535)</b>	—	<b>(3,043,410)</b>	<b>4,613,724</b>
Shares issued for:									
Cash		17,871,333	9,900,300	—	—	—	—	—	<b>9,900,300</b>
Share issue costs		—	(1,034,579)	190,907	—	—	—	—	<b>(843,672)</b>
Fair value of warrants issued		—	(2,777,582)	2,777,582	—	—	—	—	<b>—</b>
Stock-based compensation		—	—	—	713,711	—	—	—	<b>713,711</b>
Net loss and comprehensive loss		—	—	—	—	232,975	—	(2,186,423)	<b>(1,953,448)</b>
<b>Balance, September 30, 2011</b>		<b>52,187,063</b>	<b>12,955,504</b>	<b>3,365,512</b>	<b>1,185,992</b>	<b>153,440</b>	—	<b>(5,229,833)</b>	<b>12,430,615</b>

See accompanying notes to the consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars – unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Sept 30</b>	<b>Sept 30</b>	<b>Sept 30</b>	<b>Sept 30</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before income taxes	(608,333)	(195,801)	(2,186,423)	(767,313)
Adjustments to loss for non-cash items:				
Depreciation	4,630	1,393	12,758	4,177
Stock-based compensation	-	-	713,711	167,109
Net changes in non-cash working capital items:				
Prepaid expenses and deposits	24,747	(63)	(72,056)	(11,649)
Trade and other receivables	(2,250)	(5,857)	4,822	(4,384)
Trade and other payables	102,022	138,370	543,125	368,206
Net cash flows (used in) operating activities	(479,184)	(61,958)	(984,063)	(243,854)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Expenditures on exploration and evaluation assets	(2,284,989)	(307,532)	(4,270,721)	(1,240,891)
Expenditures on property, plant and equipment	(29,608)	-	(55,133)	-
Net cash flows (used in) investing activities	(2,314,597)	(307,532)	(4,325,854)	(1,240,891)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	5,892,800	-	9,900,300	812,500
Share issue costs	(453,272)	(2,150)	(843,672)	(9,650)
Net cash flows from financing activities	5,439,528	(2,150)	9,056,628	802,850
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,645,747</b>	<b>(371,640)</b>	<b>3,746,711</b>	<b>(681,895)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>2,627,866</b>	<b>626,695</b>	<b>1,526,902</b>	<b>936,950</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>5,273,613</b>	<b>255,055</b>	<b>5,273,613</b>	<b>255,055</b>

See accompanying notes to the consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**  
(Expressed in Canadian dollars - unaudited)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Montero Mining and Exploration Ltd (“Montero”) was incorporated on October 5, 2006, under the laws of British Columbia, Canada. Montero and its subsidiaries (collectively, the “Company”) are primarily engaged in the acquisition and exploration of mineral properties in Tanzania, South Africa and Canada.

Montero is a publicly listed company with its shares listed on the Toronto Venture Exchange. The Company’s registered office is located at 1040 West Georgia Street, Vancouver, BC, V6E 4H3 and its head office is located at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6.

**Going Concern**

These condensed consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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 September 30, 2011, the Company had an accumulated deficit of \$5,229,833 and has not advanced its exploration and evaluation assets to commercial production and is currently not able to finance its day to day activities through operations. The ability of the Company to continue operations as a going concern is dependent on the continued support of its shareholders and directors, the ability to continue to raise adequate funding to finance its operations, and to eventually advance its mineral exploration activities to attain profitable operations, the outcome of which cannot be predicted at this time. Management is of the opinion that sufficient working capital will be obtainable from external financing sources to meet the Company’s liabilities and commitments as they become due, although there is risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

**2. STATEMENT OF COMPLIANCE**

The condensed consolidated interim financial statements of the Company, including comparatives, have been prepared 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”). As required, the Company is now preparing its financial statements in accordance with IFRS, effective January 1, 2011. 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 Note 22.

These condensed consolidated interim financial statements comply with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all of the information required of a complete set of consolidated financial statements and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and the performance of the Company since the end of its last annual reporting period. It is therefore recommended that these condensed consolidated interim financial statements be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2010. However, these condensed consolidated interim financial statements, being prepared in accordance with IFRS for the first transition year, provide selected significant disclosures that are required in the annual financial statements under IFRS.

**3. BASIS OF PRESENTATION**

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for financial instruments which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, unless otherwise indicated. Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of Consolidation**

The condensed consolidated interim financial statements include the accounts of Montero, the parent company, and its controlled subsidiaries, after the elimination of all material intercompany balances and transactions. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceased. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The Company's controlled subsidiaries included in these condensed consolidated interim financial statements are:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Ownership</b>
Montero Resource Holding Limited	British Virgin Islands	100%
Wigu Hill (BVI) Limited	British Virgin Islands	100%
Lumba (BVI) Limited	British Virgin Islands	100%
Montero Projects Limited	British Virgin Islands	100%
Montero Wigu Hill (Tanzania) Limited	Tanzania	100%
Montero Resources Limited	Tanzania	100%
Lumba Exploration Limited	Tanzania	100%
Wigu Hill Mining Company Limited	Tanzania	70%
Lumba Mining Company Limited	Tanzania	70%

**b) Significant accounting judgements, estimates and assumptions**

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the condensed consolidated interim financial statements is described below.

i) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period when the new information becomes available.

ii) Other

Other areas where the Company is required to make judgements, estimates and assumptions are the determination of deferred income tax amounts and the assessment of whether deferred tax assets should be recognized, the calculations of share-based payment amounts and management's assumptions and estimates related to going concern considerations.

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**c) Exploration and evaluation assets**

The Company records and carries its interest in exploration and evaluation assets at cost. These capitalized costs include the direct costs of acquisition, exploration and the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. Government tax credits received are recorded as a reduction of the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment when the facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

The Company's criterion for testing impairment includes, but is not limited to, when:

- i) Exploration rights for a specific area expired or are expected to expire in the near future and these rights are not expected to be renewed;
- ii) Substantive expenditures on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- iii) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- iv) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

When an impairment test is performed and, as a result of this test, it is determined that the carrying amount of an exploration and evaluation asset exceeds its recoverable amount, a provision is made for the decline in value and charged against operations in the year.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**d) Farm outs**

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized.

**e) Joint ventures**

From time to time, the Company enters into agreements that provide for specified percentage interests in mineral property rights to be allocated to joint venture participants in exchange for funding or joint funding of exploration programs. As such, these agreements represent jointly controlled assets, which are recognized in the Company's financial statements. The Company recognizes in its financial statements its share of the jointly controlled assets, any liabilities incurred directly by the Company on these assets and its share of liabilities incurred jointly with the other venture partners in relation to the jointly controlled assets. The Company also recognizes its share of any expenses incurred by the joint venture as well as expenses incurred directly by the Company in respect of the joint venture assets.



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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**e) Joint ventures – Continued**

In addition, the Company may participate in ownership of a jointly controlled entity, which is a corporation, partnership or other entity in which each venturer holds an interest. A jointly controlled entity operates in the same way as other entities, except that a contractual arrangement established joint control. A jointly controlled entity controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interest in jointly controlled entities are accounted for using the equity method.

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the joint venture. Any goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive loss reflects the Company's share of the results of operations of the joint venture. Where there has been a charge recognized directly in the equity of the joint venture, the Company recognizes its share of the charge directly in the statement of changes in shareholders' equity. As at September 30, 2011, the Company does not have any investments in joint ventures.

**f) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Depreciation is provided at rates calculated to write off the cost of the asset over their estimated useful lives. Depreciation is calculated on a declining balance basis on its assets at the following rates: field equipment and vehicles at 30% per annum and furniture and fixtures at 20% per annum.

**g) Asset retirement and environmental obligations**

The fair value of a liability for an asset retirement or environmental obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement or environmental obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement or environmental 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 September 30, 2011, the Company does not have any asset retirement or environmental obligations.

**h) Impairment of assets**

The carrying amount of the Company's assets (which include exploration and evaluation assets and property, plant and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**  
(Expressed in Canadian dollars - unaudited)

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**i) 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.

**j) Share-based payments**

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is credited to the share-based payment reserve. The fair value of options is determined using the *Black-Scholes Option Pricing Model* which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted, shall be based on the number of equity instruments that eventually vest.

**k) Income taxes**

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**l) Foreign currency translation**

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent company, Montero, is the Canadian dollar and the functional currency of all of the Company's subsidiaries is the United States dollar. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

On initial recognition, foreign currency transactions are translated into the functional currency at the exchange rate in effect at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency, are translated using the exchange rate at the date of the transaction, whereas non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognized in the statement of comprehensive loss in the period in which they arise. When a gain or loss on non-monetary items is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the statement of comprehensive loss, any exchange component of that gain or loss is also recognized in the statement of comprehensive loss.

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 rates. Equity transactions are translated using the exchange rate at the date of the transaction. All resulting exchange differences are recognized in the Company's foreign currency translation reserve in the statement of comprehensive loss. These exchange differences are recognized in the statement of loss in the period in which the operation is disposed.

**m) Loss per share**

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

**n) Financial instruments**

*Initial recognition and measurement*

Financial assets and liabilities are initially recognized at fair value. Financial assets are classified at initial recognition as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Company does not use any hedging instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1—unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2—inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3—inputs that are not based on observable market data.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**n) Financial instruments – Continued**

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification. Financial assets at fair value through profit or loss includes financial assets held-for-trading which represent assets that are acquired for the purpose of selling or repurchasing in the near term. These financial assets are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss.

Held-to-maturity investments represent assets to be held until a specific time period and are initially measured at fair value, including transaction costs. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any amortization of the effective interest rate method and any impairment is recognized in finance income or finance cost in the statement of comprehensive loss.

Available-for-sale financial assets are investments in equity instruments that are measured at fair value with gains and losses, net of applicable taxes, included in other comprehensive income until the asset is removed from the statement of financial position. Once this occurs, the resultant gains or losses are recognized in comprehensive loss. Any permanent impairment of available-for-sale financial assets is also included in the statement of comprehensive loss.

Financial liabilities are initially recorded at fair value and are designated as fair value through profit or loss or other financial liabilities. Derivative financial liabilities are classified as fair value through profit or loss and are initially recorded in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive loss. Non-derivative financial liabilities are recorded at amortized cost using the effective interest rate method. Any amortization of the effective interest rate method is recognized in finance cost in the statement of comprehensive loss.

Financial assets, others than those at fair value through profit and loss are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The amount of impairment loss is recognized in the statement of comprehensive loss. Any subsequent reversals of impairment are also recognized in the statement of comprehensive loss, except for those related to available-for-sale financial assets.

**o) Accounting standards and interpretations issued but not yet effective**

Certain accounting standards and interpretations are issued but which are yet required to be adopted as follows:

***Amendments to IFRS 7 “Financial Instruments: Disclosures”***

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**o) Accounting standards and interpretations issued but not yet effective – Continued**

***New standard IFRS 9 “Financial Instruments”***

In November 2009, the IASB issued IFRS 9 which will replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2013.

***New standards IFRS 10 “Consolidated Financial Statements” and IFRS 12 “Disclosure of Interests in Other Entities”***

In May 2011, the IASB issued IFRS 10 “Consolidated Financial Statements” and IFRS 12 “Disclosure of Interests in Other Entities”. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity’s consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors return. IFRS 10 sets out the requirements on how to apply the control principle. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity’s financial position, financial performance and cash flows. IFRS 10 and IFRS 12 supersede IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”.

IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013.

***New standard IFRS 11 “Joint Arrangements”***

In May 2011, the IASB issued IFRS 11 “Joint Arrangements”, which provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is an arrangement where the jointly controlling parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method. Proportionate consolidation is no longer permitted.

This standard is effective for annual periods beginning on or after January 1, 2013.

***New standard IFRS 13 “Fair Value Measurement”***

In May 2011, the IASB issued IFRS 13 “Fair Value Measurement”. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**o) Accounting standards and interpretations issued but not yet effective – Continued**

***Amendments to IAS 1 “Presentation of Financial Statements”***

In June 2011, the IASB and the Financial Accounting Standards Board (FASB) issued amendments to standards to align the presentation requirements for other comprehensive income (“OCI”). The IASB issued amendments to IAS 1 “Presentation of Financial Statements” to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statements or two consecutive statements.

The amendments to IAS 1 are set out in *Presentation of Items of Other Comprehensive Income* and are effective for annual periods beginning on or after July 1, 2012.

***Interpretation 20—Stripping Costs in the Production Phase of a Surface Mine***

In October 2011, the IASB issued an Interpretation clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how the assets should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after January 1, 2013.

The Company has not early-adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

**5. EXPLORATION AND EVALUATION ASSETS**

A summary of the Company’s exploration and evaluation assets by property area is as follows:

	<b>September 30 2011</b>	<b>December 31 2010</b>
	\$	\$
Tanzania		
Wigu Hill	5,343,099	1,510,109
Iringa	243,798	163,140
Liwale	312,644	265,040
South Africa		
Phosco	686,662	220,213
Canada		
Girard	1,197,476	1,131,688
Lac Yvonne	79,353	71,726
	<b>7,863,032</b>	<b>3,361,916</b>

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**5. EXPLORATION AND EVALUATION ASSETS – Continued**

**a) Tanzania**

**Wigu Hill Project**

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”). On April 27, 2010 Montero and RSR signed an amendment agreement whereby, in order to exercise the First Option, the Company must pay United States Dollars (“USD”) \$150,000 on or before April 30, 2010 (paid). After the exercise of the First Option, RSR will transfer the prospecting licences comprising the Wigu Hill Project (the “Wigu Hill Licences”) to a newly-formed company and the Company will concurrently pay RSR a further USD \$50,000 (paid). The Company is further obligated to incur exploration expenditures of USD \$3.5 million (incurred) (or alternatively complete a prefeasibility study) on or before November 28, 2012. Once completed, the Company may at its sole discretion, within 60 days after November 28, 2012, elect to acquire a further 10% interest in the Wigu Hill Licences by paying RSR a further USD \$2,000,000 to complete the requirements to execute the Second Option.

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

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

**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.

**b) South Africa**

**Phosco Project**

On October 18, 2010, the Company’s subsidiary, Montero Projects Limited (“Montero Projects”) entered into a binding term sheet agreement with Celtic Trust Company Limited (“Celtic”), whereby Montero Projects has the exclusive right to acquire the shares in Celtic’s subsidiaries which hold interests in 4 phosphate exploration projects in South Africa (the “Phosco assets”). Montero Projects paid \$100,000 to be granted an exclusivity period, which expired on July 18, 2011, to complete due diligence on the Phosco assets.

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**5. EXPLORATION AND EVALUATION ASSETS – Continued**

**Phosco Project**

Effective July 18, 2011, an amendment to the binding term sheet agreement was executed, whereby Montero Projects agreed to acquire the shares in Celtic's subsidiaries holding the Phosco assets by issuing 2,500,000 common shares of Montero, subject to satisfactory completion of final due diligence and approval from the TSX Venture Exchange on or before November 18, 2011 (see Note 23 (b)). An additional 1,000,000 common shares of Montero may be issued as consideration if a mining industry compliant report (the "Report") is obtained, indicating a phosphate inferred resource on certain prospecting rights of the Phosco assets (the "Bierkraal Project"). The Company has 18 months to conduct an exploration program on the Bierkraal Project and, if at the end of this period, the Company has not obtained the Report or given notice to Celtic that they intend to obtain the Report, the Company shall offer to transfer back the shares of the subsidiary that holds the Bierkraal Project to Celtic for no consideration.

**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 were also required which totaled \$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.

**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.



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**5. EXPLORATION AND EVALUATION ASSETS – Continued**

The following is a detailed analysis of the exploration and evaluation assets incurred by the Company as at September 30, 2011:

	Tanzania			South Africa	Canada		Totals for	
	Wigu Hill	Iringa	Liwale	Phosco	Girard	Lac Yvonne	Nine Months ended Sept 30, 2011	Year ended December 31, 2010
	\$	\$	\$		\$	\$	\$	\$
<b>Property acquisition costs</b>								
Balance, beginning of period	339,269	126,269	210,757	153,073	897,336	36,666	<b>1,763,370</b>	1,222,662
Foreign currency translation	55,536	6,362	28,202	5,623	-	-	<b>95,723</b>	(15,971)
Additions	784,199	29,719	7,488	5,674	5,349	318	<b>832,747</b>	576,855
Write-down due to impairment	-	-	-	-	-	-	-	(20,176)
<b>Balance, end of period</b>	<b>1,179,004</b>	<b>162,350</b>	<b>246,447</b>	<b>164,370</b>	<b>902,685</b>	<b>36,984</b>	<b>2,691,840</b>	<b>1,763,370</b>
<b>Exploration and evaluation costs</b>								
Balance, beginning of period	1,170,836	36,871	54,287	67,140	234,352	35,060	<b>1,598,546</b>	493,802
Foreign currency translation	196,913	1,561	1,682	25,271	-	-	<b>225,427</b>	(36,108)
Costs incurred during the period:								
Drilling costs	1,251,963	-	-	143,957	-	-	<b>1,395,920</b>	112,980
Field and camp costs	247,437	12,514	18	4,015	-	810	<b>264,794</b>	191,057
Geochemical & metallurgical	417,994	1,735	-	39,963	-	-	<b>459,692</b>	131,460
Geological consulting	607,898	18,661	7,154	220,709	-	-	<b>854,422</b>	460,245
Geophysical and maps	22,322	1,534	-	1,437	-	4,909	<b>30,202</b>	78,186
Maintenance & environmental	53,093	-	-	3,009	60,491	412	<b>117,005</b>	6,390
Motor vehicle costs	84,770	7,022	3,046	5,376	-	-	<b>100,214</b>	99,878
Project administration costs	55,826	-	-	171	-	639	<b>56,636</b>	31,531
Travel and accommodation	55,043	1,550	10	11,244	-	539	<b>68,386</b>	55,685
	<b>4,164,095</b>	<b>81,448</b>	<b>66,197</b>	<b>522,292</b>	<b>294,843</b>	<b>42,369</b>	<b>5,171,244</b>	<b>1,625,106</b>
Recovery of costs during period:								
Exploration tax credits	-	-	-	-	(52)	-	<b>(52)</b>	(22,153)
Write-down due to impairment	-	-	-	-	-	-	-	(4,407)
	-	-	-	-	(52)	-	<b>(52)</b>	(26,560)
<b>Balance, end of period</b>	<b>4,164,095</b>	<b>81,448</b>	<b>66,197</b>	<b>522,292</b>	<b>294,791</b>	<b>42,369</b>	<b>5,171,192</b>	<b>1,598,546</b>
<b>Total</b>	<b>5,343,099</b>	<b>243,798</b>	<b>312,644</b>	<b>686,662</b>	<b>1,197,476</b>	<b>79,353</b>	<b>7,863,032</b>	<b>3,361,916</b>

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**6. PROPERTY, PLANT AND EQUIPMENT**

	Field Equipment	Vehicles	Furniture and Fixtures	TOTAL
	\$	\$	\$	\$
<b>Cost:</b>				
Balance, December 31, 2009	18,564	-	-	18,564
Additions	41,497	-	-	41,497
Balance, December 31, 2010	60,061	-	-	60,061
Additions	22,570	31,259	3,884	57,713
Balance, September 30, 2011	82,631	31,259	3,884	117,774
<b>Accumulated Depreciation:</b>				
Balance, December 31, 2009	13,544	-	-	13,544
Additions	11,935	-	-	11,935
Balance, December 31, 2010	25,479	-	-	25,479
Additions	11,379	822	557	12,758
Balance, September 30, 2011	36,859	822	557	38,237
<b>Net Book Value:</b>				
At December 31, 2010	34,582	-	-	34,582
<b>At September 30, 2011</b>	<b>45,773</b>	<b>30,437</b>	<b>3,327</b>	<b>79,537</b>

**7. TRADE AND OTHER RECEIVABLES**

The Company had no trade receivables as at September 30, 2011 or December 31, 2010. Other receivables comprise amounts due from the Government of Canada for amounts related to Harmonized Sales Tax. These amounts are non-interest bearing and are due within twelve months.

**8. CASH AND CASH EQUIVALENTS**

The components of cash and cash equivalents are as follows:

	September 30 2011	December 31 2010
	\$	\$
Cash held at banks	257,546	125,751
Guaranteed investment certificates	5,016,067	1,401,151
	<b>5,273,613</b>	<b>1,526,902</b>

Cash held at banks earns no interest. The cash held in guaranteed investment certificates are generally invested for varying short-term periods of less than 180 days depending on the immediate cash requirements of the Company, and earn interest at short-term deposit rates. The Company only deposits cash surpluses with Tier 1 banks of high quality credit standing.

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**9. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value.

**Issued and outstanding**

	Number of Shares	Amount
		\$
Balance, at December 31, 2009	24,753,341	4,175,244
Shares issued for cash	7,450,000	2,912,500
Shares issued for debt settlements	1,112,389	143,237
Shares issued for mineral property	1,000,000	135,000
Value of warrants reclassified	-	(388,603)
Share issue costs	-	(110,013)
Balance, at December 31, 2010	34,315,730	6,867,365
Shares issued for cash	17,871,333	9,900,300
Value of warrants reclassified	-	(2,777,582)
Share issue costs	-	(1,034,579)
<b>Balance, at September 30, 2011</b>	<b>52,187,063</b>	<b>12,955,504</b>

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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. Share issue costs paid in cash for this financing amounted to \$7,568.
- (v) On November 10, 2010, the Company completed a private placement financing by issuing 4,200,000 Units at \$0.50 per Unit for gross 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 shall consist of one share and one-half of a warrant, each whole warrant entitling the holder to acquire one share for \$0.70 until November 12, 2012. Share issue costs paid in cash for this financing amounted to \$61,525.

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**9. SHARE CAPITAL – Continued**

The Company has 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 warrants reserve. The resultant value of \$8,420 attributable to the Broker Warrants has been charged to share issue costs and warrants reserve.

- vi) On February 10, 2011, the Company successfully closed its Initial Public Offering (“IPO”) through the issuance of 8,000,000 Units at \$0.50 per Unit raising gross cash proceeds of \$4,000,000. Each Unit consists of one common share in the Company and one half of one common share purchase warrant, each whole warrant exercisable into one common share at \$0.70 per share until February 10, 2013. Agent’s commission included a commission of 7.0% of the gross proceeds raised which amounted to \$280,000, and \$25,000 as a corporate finance fee. These costs, along with other offering costs totaled \$422,900, of which \$32,500 were incurred during the year ended December 31, 2010, with the balance of \$390,400 being incurred during the three months ended March 31, 2011. The Agent was also granted Agent Warrants equal to 7.0% of the number of Units sold for a total of 560,000 Agent Warrants. Each Agent Warrant entitles the holder to purchase one Unit at \$0.50 per Unit until February 10, 2013, each Unit consisting of one common share and one half of one common share purchase warrant, each whole warrant exercisable into one common share at \$0.70 per share until February 10, 2013.

The Company has valued the warrants and the Agent Warrants issued in connection with its IPO using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.69%; volatility 125%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of \$1,129,518 attributable to the warrants has been reclassified from share capital and charged to warrants reserve. The resultant value of \$79,066 attributable to the Agent Warrants has been charged to share issue costs and warrants reserve.

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

The Company has valued the warrants issued in connection with this private placement using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 1.12%; volatility 125%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of \$1,648,064 attributable to the warrants has been reclassified from share capital and charged to warrants reserve. The resultant value of \$111,841 attributable to the warrants issued to eligible finders has been charged to share issue costs and warrants reserve.

Shares totalling 8,102,669 shares and 1,850,000 stock options that were held by the principals of the Company prior to the completion of the IPO are held in escrow, subject to a release schedule imposed by the TSX Venture Exchange which is that 10% of such securities will be released upon the Company’s shares being listed on the TSX Venture Exchange and 15% will be released every six months thereafter. In addition, 1,919,834 shares and 125,000 stock options held by non-principals prior to the IPO, are subject to resale restrictions imposed by the TSX Venture Exchange, which amounts to 1,000,000 of such shares being subject to the same provisions as noted above for the principals and the remainder generally subject to a timed release of 20% every month, amongst other provisions. As of September 30, 2011, 6,658,669 of the above noted shares and 1,387,500 of the above noted stock options are still held in escrow or subject to a release schedule.

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**9. SHARE CAPITAL – Continued**

**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:

	<b>September 30, 2011</b>		<b>December 31, 2010</b>	
	Number of Shares Issuable	Weighted Average Exercise Price \$	Number of Shares Issuable	Weighted Average Exercise Price \$
Options outstanding, beginning of period	2,225,000	0.16	975,000	0.15
Granted	1,475,000	0.50	1,550,000	0.17
Exercised	(50,000)	0.15	-	-
Expired	-	-	(300,000)	(0.15)
Options outstanding and exercisable, end of period	3,650,000	0.30	2,225,000	0.16

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. 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. 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 and credited to share-based payment reserve.

On February 10, 2011 the Company granted 1,475,000 stock options with an exercise price of \$0.50 per share. The fair value of these stock options granted has been estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: expected dividend yield of 0%; expected volatility of 190%; a risk-free interest rate of 1.69% and an expected average life of 5 years. The resultant charge of \$713,711 has been charged to stock-based compensation expense and credited to share-based payment reserve.

As of September 30, 2011, certain of these stock options totalling 1,387,500 stock options, remain subject to escrow and resale restrictions as described above.

The stock options expire as follows: 625,000 in 2013, 1,550,000 in 2015 and 1,475,000 in 2016.

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**10. WARRANTS**

The issued and outstanding warrants are comprised of the following:

<b>Date of expiry</b>	<b>Warrant Reserve</b>	<b>Number of warrants</b>	<b>Exercise Price</b>
	<b>\$</b>		<b>\$</b>
November 10, 2012	388,603	2,100,000	0.70
November 10, 2012	8,420	45,500	0.70
Balance, December 31, 2010	397,023	2,145,500	
February 10, 2013	1,129,518	4,000,000	0.70
February 10, 2013	79,066	280,000	0.70
August 3, 2013	1,648,064	4,910,666	0.80
August 3, 2013	111,841	333,247	0.80
<b>Balance, September 30, 2011</b>	<b>3,365,512</b>	<b>11,669,413</b>	

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

	<b>September 30, 2011</b>		<b>December 31, 2010</b>	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		<b>\$</b>		<b>\$</b>
Warrants outstanding, beginning of period	2,145,500	0.70	-	-
Granted	9,523,913	0.76	2,145,500	0.70
Expired	-	-	-	-
Warrants outstanding, end of period	11,669,413	0.74	2,145,500	0.70

**11. SHARE-BASED PAYMENT RESERVE**

The Company's share-based payment reserve is comprised of the following:

	<b>\$</b>
Expired:	
Stock options	124,750
Unexpired stock options	1,061,242
<b>Balance, September 30, 2011</b>	<b>1,185,992</b>

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**11. SHARE-BASED PAYMENT RESERVE – Continued**

A continuity of the Company's share-based payment reserve is as follows:

	\$
Balance, December 31, 2009	305,172
Stock-based compensation expense	167,109
Balance, December 31, 2010	472,281
Stock-based compensation expense	713,711
<b>Balance, September 30, 2011</b>	<b>1,185,992</b>

**12. FOREIGN CURRENCY TRANSLATION RESERVE**

Exchange differences on translating foreign operations are credited to the foreign currency translation reserve. A continuity of the Company's foreign currency translation reserve is as follows:

	\$
Balance, December 31, 2009	-
Exchange differences on translating foreign operations	(79,535)
Balance, December 31, 2010	(79,535)
Exchange differences on translating foreign operations	232,975
<b>Balance, September 30, 2011</b>	<b>153,440</b>

**13. TRADE AND OTHER PAYABLES**

The components of trade and other payables is as follows:

	September 30 2011	December 31 2010
	\$	\$
Trade payables	616,391	157,748
Amounts due to related parties	114,762	181,248
Accrued liabilities	194,796	43,828
	<b>925,949</b>	<b>382,824</b>

Trade and other payables are comprised of amounts due to related parties for services and reimbursement of expenses, as well as trade payables and accrued liabilities. These amounts are non-interest bearing and are normally settled within 90 day terms, with all amounts due within twelve months.

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**14. INCOME TAXES**

At the end of the Company's last fiscal year-end of December 31, 2010, the Company had 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. At the end of the Company's last fiscal year-end of December 31, 2010, the Company also had 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 any deferred income tax assets is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has not recognized the potential deferred income tax asset.

**15. LOSS PER SHARE**

Basic loss per share amounts are calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. The basic and diluted loss per share are the same since the Company reported a loss for the period. The loss per share for the three and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended		Nine months ended	
	Sept 30 2011	Sept 30 2010	Sept 30 2011	Sept 30 2010
	\$	\$	\$	\$
Net loss attributable to owners of the parent company	(608,333)	(195,801)	(2,186,423)	(704,450)
Weighted average number of ordinary shares outstanding	44,452,314	30,115,730	43,229,786	27,424,420
Basic and diluted loss per ordinary share	<b>\$(0.01)</b>	<b>\$(0.01)</b>	<b>\$(0.05)</b>	<b>\$(0.03)</b>

There have been further transactions involving ordinary shares or potential ordinary shares which were issued between the reporting date and the date of completion of these financial statements, except as outlined in Note 23.

**16. COMMITMENTS AND CONTINGENCIES**

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

The Company has capital commitments relating to its exploration and evaluation assets as outlined in detail in Note 5.

The Company has no contingent liabilities.



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**17. RELATED PARTY TRANSACTIONS**

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**

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

**Related party transactions**

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

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**17. RELATED PARTY TRANSACTIONS - Continued**

**Related party balances**

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

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

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.

**18. 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:

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

  

<b>As at December 31, 2010</b>				
	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
<b>Total non-current assets</b>	<b>1,203,414</b>	<b>1,972,871</b>	<b>220,213</b>	<b>3,396,498</b>

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**19. NON-CASH TRANSACTIONS**

During the nine months ended September 30, 2011 and 2010, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	Sept 30 2011	Sept 30 2010
	\$	\$
Warrants issued for share issue costs	190,907	-
Shares issued for exploration and evaluation assets	-	135,000
Shares issued for settlement of trade and other payables	-	87,757
Shares issued pursuant to obligation to issue shares for settlement of trade and other payables	-	55,480

**20. 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.

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**21. FINANCIAL RISK MANAGEMENT**

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 fulfill 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 are 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 in Note 20, 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 \$25,080 (December 31, 2010 - \$7,006). The Company has no interest-bearing liabilities.

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**21. FINANCIAL RISK MANAGEMENT – Continued**

*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 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:

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

Based on the above net exposures at September 30, 2011, a 10% depreciation or appreciation in the USD dollar against the CAD dollar would result in a \$76,486 (December 31, 2010 – \$10,324) increase or decrease in the Company's comprehensive loss and foreign currency translation reserve.

*Commodity Price Risk*

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

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

**22. INITIAL ADOPTION OF IFRS**

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 Generally Accepted Accounting Principles ("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.

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**22. INITIAL ADOPTION OF IFRS – *Continued***

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 have been accounted for in accordance with Canadian GAAP.

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

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**22. INITIAL ADOPTION OF IFRS – Continued**

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

	Notes	December 31, 2010			January 1, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$
Exploration and evaluation assets	22 a) e)	3,469,486	(107,570)	3,361,916	1,775,533	(29,535)	1,745,998
Property, plant and equipment	22 e)	36,082	(1,500)	34,582	5,020	-	5,020
Deferred financing costs	22 b)	190,142	(190,142)	-	24,071	(24,071)	-
<b>Total non-current assets</b>		<b>3,695,710</b>	<b>(299,212)</b>	<b>3,396,498</b>	<b>1,804,624</b>	<b>(53,606)</b>	<b>1,751,018</b>
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
<b>TOTAL ASSETS</b>		<b>5,295,760</b>	<b>(299,212)</b>	<b>4,996,548</b>	<b>2,747,234</b>	<b>(53,606)</b>	<b>2,693,628</b>
<b>Equity attributable to owners of the parent</b>							
Share capital	22 b)	6,902,015	(34,650)	6,867,365	4,175,244	-	4,175,244
Obligation to issue shares		-	-	-	55,480	-	55,480
Warrants	22 d)	-	397,023	397,023	-	-	-
Share-based payment reserves	22 d)	869,304	(397,023)	472,281	305,172	-	305,172
Foreign currency translation reserve	22 e)	-	(79,535)	(79,535)	-	-	-
Accumulated deficit	22 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	22 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
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>5,295,760</b>	<b>(299,212)</b>	<b>4,996,548</b>	<b>2,747,234</b>	<b>(53,606)</b>	<b>2,693,628</b>

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**22. INITIAL ADOPTION OF IFRS – Continued**

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

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

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)
<b>Comprehensive loss</b>		<b>(932,862)</b>	<b>(148,093)</b>	<b>(1,080,955)</b>



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**22. INITIAL ADOPTION OF IFRS – Continued**

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

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

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.

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**22. INITIAL ADOPTION OF IFRS – Continued**

Notes describing in more detail the reconciliations of accounts from Canadian GAAP to IFRS are 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 raising of additional cash through the issue of new share capital and therefore have been charged to the deficit as of that date. The Company reviewed the costs incurred for the nine months ended September 30, 2010 and have determined that \$55,473 (\$28,479 for the six months ended June 30, 2010) relate to professional fees which have been charged to expense, and \$9,650 relate to share issue costs incurred related to the Company's IPO and have been charged to share issue costs and netted against share capital. For the year ended December 31, 2010, the Company has determined that \$131,421 of the costs relate to professional fees which have been charged to expense and \$34,650 relate to share issue costs and have been charged to share issue costs and netted against share capital.
- c) During 2009 the Company transferred assets from one Tanzanian subsidiary to another, realizing a loss on the transaction, which was reversed on consolidation. Under Canadian GAAP, no deferred tax liability should be recognized on the transfer of assets between enterprises in a consolidated group for a temporary difference arising between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements. Under IFRS, a deferred tax liability shall be recorded on temporary differences between the book and tax basis. Accordingly, the Company recorded a deferred tax liability of \$62,863 in its statement of financial position on the transition to IFRS as of January 1, 2010. During the nine months ended September 30, 2010, the Company incurred sufficient losses to offset this deferred tax liability and so a recovery of deferred income taxes of \$62,863 was recorded in the statement of comprehensive loss during the nine months ended September 30, 2010.
- d) This is a reclassification only between equity accounts from contributed surplus, the Canadian GAAP term 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, which is the Canadian dollar. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial period end. Income and expenses for each statement of loss and comprehensive income are translated at the average exchange. Equity transactions are translated using the exchange rate at the date of the transaction. All resulting exchange differences are recognized as a separate component of equity. The foreign exchange translation amounted to \$232,975 for the nine months ended September 30, 2011 (nine months ended September 30, 2010 - (\$18,637); three months ended September 30, 2010 - (\$32,658) and has been charged to comprehensive loss and foreign currency translation reserve.

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**23. EVENTS AFTER THE REPORTING PERIOD**

Events that occurred subsequent to September 30, 2011 are as follows:

- a) On October 1, 2011, the Company entered into an agreement with investor relations company to provide services to the Company for a one year period for \$5,000 per month.
- b) On November 10, 2011, the Company issued 2,500,000 common shares to Celtic to complete the acquisition of the Phosco assets as described in Note 5 (b).