MONTERO MINING AND EXPLORATION LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2012 and 2011
Expressed in Canadian Dollars

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	June 30, 2012	December 31, 2011
ASSETS		**$**	**$**
Current assets			
Cash and cash equivalents		986,358	3,249,762
Trade and other receivables		14,725	16,840
Prepaid expenses and deposits		63,637	121,625
Held for sale assets	4	1,629,774	-
Total current assets		2,694,494	3,388,227
Non-current assets			
Reclamation bonds	4	-	32,010
Property, plant and equipment		121,750	122,431
Exploration and evaluation assets	5	9,527,353	10,125,666
Total non-current assets		9,649,103	10,280,107
TOTAL ASSETS		**12,343,597**	**13,668,334**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	10	1,266,810	1,071,596
Total current liabilities		1,266,810	1,071,596
SHAREHOLDERS' EQUITY			
Equity attributable to the owners of the Company			
Share capital	6	12,511,041	12,511,041
Warrant reserve	7	4,559,975	4,559,975
Share-based payment reserve	8	1,715,443	1,715,443
Foreign currency translation reserve		88,517	57,881
Accumulated deficit		(7,798,189)	(6,247,602)
Total shareholders' equity		11,076,787	12,596,738
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**12,343,597**	**13,668,334**

On behalf of the Board:

"Antony Harwood"	*"Antonia J Chapman"*
Antony Harwood, Director	Antonia J Chapman, Director

See accompanying notes to the condensed consolidated financial statements

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

		Three months ended		Six months ended	
	Notes	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
		$	**$**	**$**	**$**
EXPENSES					
Consulting, directors', administrative and management fees	10	195,630	221,600	486,297	369,919
Depreciation		11,024	4,619	21,957	8,128
General and administrative	10	16,935	33,582	47,425	65,260
Other expenses		23,818	63,507	71,962	106,201
Professional fees		36,352	54,809	72,554	149,610
Project investigation costs	10	-	6,445	8,381	55,416
Shareholder and regulatory	10	84,184	35,964	217,381	104,679
Stock-based compensation		-	-	-	713,711
OPERATING LOSS		(367,943)	(420,526)	(925,957)	(1,572,924)
OTHER ITEMS					
Impairment of exploration and evaluation assets	5	(617,326)	-	(617,326)	-
Interest income		3,422	8,042	9,136	13,711
Foreign exchange		(647)	(12,198)	(16,440)	(18,877)
		(614,551)	(4,156)	(624,630)	(5,166)
NET LOSS		**(982,494)**	**(424,682)**	**(1,550,587)**	**(1,578,090)**
OTHER COMPREHENSIVE INCOME					
Exchange difference on translating foreign operations		185,478	(421)	30,636	(50,160)
COMPREHENSIVE LOSS		**(797,016)**	**(425,103)**	**(1,519,951)**	**(1,628,250)**
LOSS PER SHARE – BASIC AND DILUTED		$ (0.02)	$ (0.01)	$ (0.03)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED		54,687,063	42,333,962	54,687,063	40,521,807

See accompanying notes to the condensed consolidated financial statements

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

		Share Capital		Warrant Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Deficit	TOTAL EQUITY
	Note	Number of Shares	$	$	$	$	$	$
Balance, December 31, 2010	6	34,315,720	6,867,365	397,023	472,281	(79,535)	(3,043,410)	**4,613,724**
Shares issued for:								
Cash	6	8,050,000	4,007,500	—	—	—	—	**4,007,500**
Share issue costs	6	—	(713,795)	323,395	—	—	—	**(390,400)**
Fair value of warrants issued	6	—	(1,488,423)	1,488,423	—	—	—	**—**
Stock-based compensation	6	—	—	—	713,711	—	—	**713,711**
Net loss and comprehensive loss		—	—	—	—	(50,160)	(1,578,090)	**(1,628,250)**
Balance, June 30, 2011		**42,365,730**	**8,672,647**	**2,208,841**	**1,185,992**	**(129,695)**	**(4,621,500)**	**7,316,285**
Shares issued for:								
Cash	6	9,821,333	5,892,800	—	—	—	—	**5,892,800**
Share issue costs	6	—	(864,993)	411,721	—	—	—	**(453,272)**
Fair value of warrants issued	6	—	(1,939,413)	1,939,413	—	—	—	**—**
Acquisition of subsidiary (Phosco)	4,6	2,500,000	750,000	—	—	—	—	**750,000**
Stock-based compensation	6	—	—	—	529,451	—	—	**529,451**
Net loss and comprehensive loss		—	—	—	—	187,576	(1,626,102)	**(1,438,526)**
Balance, December 31, 2011		**54,687,063**	**12,511,041**	**4,559,975**	**1,715,443**	**57,881**	**(6,247,602)**	**12,596,738**
Net loss and comprehensive loss		—	—	—	—	30,636	(1,550,587)	**(1,519,951)**
Balance, June 30, 2012		**54,687,063**	**12,511,041**	**4,559,975**	**1,715,443**	**88,517**	**(7,798,189)**	**11,076,787**

See accompanying notes to the condensed consolidated financial statements

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

	Three months ended		Six months ended	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
	$	**$**	**$**	**$**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	(982,494)	(424,682)	(1,550,587)	(1,578,090)
Adjustments to loss for non-cash items:				
Depreciation	11,024	4,619	21,957	8,128
Stock-based compensation	-	-	-	713,711
Impairment of exploration and evaluation assets	617,326	-	617,326	-
Net changes in non-cash working capital items:				
Trade and other receivables	7,562	13,185	2,115	7,072
Prepaid expenses and deposits	43,322	(104,829)	57,988	(96,803)
Held for sale assets	(38,640)	-	(38,640)	-
Trade and other payables	92,531	320,415	195,214	441,103
Net cash flows (used in) operating activities	(249,369)	(191,292)	(694,627)	(504,879)
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	-	-	(20,826)	(25,446)
Expenditures on exploration and evaluation assets	(601,320)	(875,340)	(1,547,951)	(1,985,811)
Net cash flows (used in) investing activities	(601,320)	(875,340)	(1,568,777)	(2,011,257)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	-	7,500	-	4,007,500
Share issue costs	-	-	-	(390,400)
Net cash flows from financing activities	-	7,500	-	3,617,100
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(850,689)	(1,059,132)	(2,263,404)	1,100,964
CASH AND CASH EQUIVALENTS, BEGINNING	1,837,047	3,686,998	3,249,762	1,526,902
CASH AND CASH EQUIVALENTS, ENDING	986,358	2,627,866	986,358	2,627,866

See accompanying notes to the condensed consolidated financial statements

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 TSX Venture Exchange ("TSX-V"). The Company's registered office is located at 1040 West Georgia Street, Suite 1900, Vancouver, BC, V6E 4H3 and its head office is located at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6.

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. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at June 30, 2012 the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management is of the opinion that sufficient working capital will be obtainable from external financing sources (primarily through private placements of common shares) or proceeds from the sale of non-strategic assets, to meet the Company's liabilities and commitments as they become due, although there is risk that additional funds will not be available on a timely basis or on terms acceptable to the Company.

2. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements of the Company, including comparatives, have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements 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, 2011, which were prepared in accordance with IFRS as issued by the IASB.

3. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual consolidated financial statements of the Company for the year ended December 31, 2011.The condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments which are measured at fair value. The condensed consolidated financial statements are presented in Canadian dollars, unless otherwise indicated.

(Expressed in Canadian dollars - unaudited)

4. HELD FOR SALE ASSETS

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

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

The fair value of the assets received could not be estimated reliably, so the amounts were calculated using the fair value of the instruments granted in accordance with IFRS 2, *Share-based Payment*. The fair value of the common shares was calculated using the trading stock price of Montero, which resulted in the fair value of the shares being valued at $750,000, representing the total consideration paid for Phosco. The transaction did not constitute a business combination as Eurozone did not meet the definition of a business under IFRS 3 *Business Combinations* and therefore was originally accounted for as an acquisition of a group of exploration and evaluation assets and other related assets and liabilities.

The Company has now determined that it would be appropriate to sell its Phosco assets. On March 22, 2012 the Company engaged AltaCorp Capital Inc. ("Advisor") to assist them in completing a sale. The agreement with the Advisor provides for a payment of a success fee to the Advisor of 4% of the transaction value subject to a minimum success fee of $250,000 if the Phosco assets are sold within six months of the expiry of the agreement. The agreement with the Advisor is in effect until the earlier of i) the date which is three months from the date of the agreement and ii) the date the Phosco assets are sold. Both parties have agreed that the agreement is in effect for a further six months past June 22, 2012 or until December 22, 2012 for parties that AltaCorp have introduced during the period of the agreement. It is not presently known when or in what specific manner the Phosco assets may be sold. Although management is committed and expects to sell the Phosco assets within a year, there can be no assurances that a sale will take place and the timing of such a sale is uncertain.

In accordance with IFRS, the Company has now presented its Phosco assets as *Held for Sale* assets which comprise the following:

	$
Reclamation bonds	33,154
Exploration and evaluation assets	1,548,503
Balance, March 31, 2012	1,581,657
Expenditures on held for sale assets	38,640
Foreign currency translation	9,477
Balance, June 30, 2012	**1,629,774**

(Expressed in Canadian dollars - unaudited)

5. EXPLORATION AND EVALUATION ASSETS

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

	June 30, 2012	December 31, 2011
	$	$
Tanzania		
Wigu Hill	8,060,321	6,631,442
Iringa	270,606	250,465
Liwale	423,448	382,992
Canada		
Girard	684,064	1,291,476
Lac Yvonne	88,914	81,657
South Africa		
Phosco	-	1,487,634
	9,527,353	**10,125,666**

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"). The terms and conditions of the final amended agreement on April 27, 2010 are outlined as follows: in order to exercise the First Option, the Company must pay USD $150,000 on or before April 30, 2010 (paid). After the exercise of the First Option, RSR will transfer the prospecting licences comprising the Wigu Hill Project (the "Wigu Hill Licences") to a newly-formed company (established and called - Wigu Hill Mining Company Limited "WHMC") and the Company will concurrently pay RSR a further USD $50,000 (paid). The Company is further obligated to incur exploration expenditures of USD $3.5 million (incurred) (or alternatively complete a prefeasibility study) on or before November 28, 2012. Once completed, the Company may at its sole discretion, within 60 days after November 28, 2012, elect to acquire a further 10% interest in the Wigu Hill Licences by paying RSR a further USD $2,000,000 to complete the requirements to execute the Second Option.

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

a. 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 payment may be satisfied by the issuance of common shares of Montero at the prevailing market price of such shares at the date of payment.
b. agreement that the Company has now duly and validly exercised the First Option and the Second Option, and now owns a 70% interest in the Wigu Hill Licences.
c. RSR has transferred the Wigu Hill Licences to WHMC which is owned 70% by the Company and 30% by RSR. Further funding of exploration on the Wigu Hill Licences shall be provided by the Company and RSR in proportion to their ownership of WHMC.
d. dilution provisions are provided subject to a deemed expenditure formula and, and where a party's interest is diluted to less than 10%, conversion of such interest to a 2.5% net smelter returns royalty ("NSR") will be done. The Company has the right to purchase all or part of the NSR for USD $1 million per each 0.5%.

After the establishment of WHMC, further exploration costs were incurred by the Company and RSR has not yet paid their share of these costs, which at June 30, 2012 were determined to be $861,241 (USD $845,099) and have been included in exploration and evaluation assets. Management has not recorded RSR's share as a receivable, as RSR has been put on notice for its contribution or undergo dilution.

5. EXPLORATION AND EVALUATION ASSETS – *Continued*

a) Tanzania – *Continued*

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.

b) 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.

During the three months ended June 30, 2012, the Company decided that it will not renew certain licences in regard to the Girard Claim Area when they come up for renewal and therefore has recorded an impairment of exploration and evaluation assets of $617,326.

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.

c) South Africa

Phosco Project
As outlined in Note 4, the Company completed the acquisition of Phosco on November 10, 2011 by issuing 2,500,000 common shares valued at $750,000 to acquire all of the shares of Eurozone which owns the 4 phosphate licences. The Company has now decided to sell these assets and so they have been reclassified as *Held for Sale* assets in accordance with IFRS (Note 4).

(Expressed in Canadian dollars - unaudited)

5. EXPLORATION AND EVALUATION ASSETS – *Continued*

	Tanzania			South Africa	Canada		Totals for	
	Wigu Hill	Iringa	Liwale	Phosco	Girard	Lac Yvonne	Six Months ended June 30, 2012	Year ended December 31, 2011
	$	$	$	$	$	$	$	$
Property acquisition costs								
Balance, beginning of period	1,167,915	160,059	242,840	882,534	909,946	37,408	3,400,702	1,763,370
Foreign currency translation	8,983	9,851	13,028	2,188	-	-	34,050	56,964
Additions	51,959	5,773	7,739	-	-	-	65,471	1,580,368
Impairment	-	-	-	-	(431,641)	-	(431,641)	-
Reclassification to: Held for Sale assets	-	-	-	(884,722)	-	-	(884,722)	-
Balance, end of period	1,228,857	175,683	263,607	-	478,305	37,408	2,183,860	3,400,702
Exploration and evaluation costs								
Balance, beginning of period	5,463,527	90,406	140,152	605,100	381,530	44,249	6,724,964	1,598,546
Foreign currency translation	18,944	(3,189)	(5,714)	(10,572)	-	-	(531)	126,221
Costs incurred during the period:								
Drilling costs	-	-	-		-	-	-	1,773,595
Field and camp costs	276,818	85	3,964	320	-	-	281,187	427,542
Geochemical & metallurgical	139,580	1,815	256	911	-	-	142,562	377,020
Geological consulting	434,635	5,272	17,109	60,858	-	-	517,874	1,322,480
Geophysical and maps	16,073	-	-	-	-	-	16,073	46,033
Maintenance & environmental	95,507	-	-	4,689	5,681	7,446	113,323	294,069
Motor vehicle costs	68,556	-	499	1,393	4,725	562	75,735	171,395
Project administration costs	152,797	-	3,088	3	-	163	156,051	164,820
Refinery hydromet and testing	112,089						112,089	272,672
Travel and accommodation	52,938	534	487	1,079	-	-	55,038	150,623
	6,831,464	94,923	159,841	663,781	391,936	52,420	8,194,365	6,725,016
Recoveries and reclassifications during period:								
Exploration tax credits	-	-	-	-	(492)	(914)	(1,406)	(52)
Impairment	-	-	-	-	(185,685)	-	(185,685)	-
Reclassification to: Held for Sale assets	-	-	-	(663,781)	-	-	(663,781)	-
	-	-	-	(663,781)	(186,177)	(914)	(850,872)	(52)
Balance, end of period	6,831,464	94,923	159,841	-	205,759	51,506	7,343,493	6,724,964
Total	8,060,321	270,606	423,448	-	684,064	88,914	9,527,353	10,125,666

6. SHARE CAPITAL

Authorized
Unlimited number of common shares without par value.

Issued and outstanding
At June 30, 2012 there were 54,687,063 issued and fully paid common shares outstanding (December 31, 2011 – 54,687,063).

Details of changes to share capital

i) 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 year ended December 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 1.87%; volatility 173%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of $1,488,423 attributable to the warrants has been reclassified from share capital and charged to warrant reserve. The resultant value of $323,395 attributable to the Agent Warrants has been charged to share issue costs and warrant reserve.

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

iii) 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 1.25%; volatility 150%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of $1,939,413 attributable to the warrants has been reclassified from share capital and charged to warrant reserve. The resultant value of $411,721 attributable to the warrants issued to eligible finders has been charged to share issue costs and warrant reserve.

iv) On November 10, 2011, the Company issued 2,500,000 common shares to acquire all of the shares of Phosco as outlined in Note 4.

(Expressed in Canadian dollars - unaudited)

6. SHARE CAPITAL – *Continued*

Escrow and restricted shares

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 subject to escrow provisions and are being released in accordance with a schedule imposed by the TSX-V which is that 10% of such securities were released upon the Company's shares being listed on the TSX-V 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-V, 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 June 30, 2012, 4,861,601 of the above noted shares and 1,110,000 of the above noted stock options are still held in escrow or subject to a release schedule.

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:

	June 30, 2012		December 31, 2011	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		$		$
Options outstanding, beginning of period	5,105,000	0.32	2,225,000	0.16
Granted	-	-	2,955,000	0.44
Exercised	-	-	(50,000)	0.15
Expired/cancelled	(75,000)	0.50	(25,000)	0.15
Options outstanding and exercisable, end of period	5,030,000	0.33	5,105,000	0.32

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.

On December 17, 2011 the Company granted 1,480,000 stock options with an exercise price of $0.38 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 168%; a risk-free interest rate of 1.18% and an expected average life of 5 years. The resultant charge of $529,451 has been charged to stock-based compensation expense and credited to share-based payment reserve.

(Expressed in Canadian dollars - unaudited)

6. SHARE CAPITAL – *Continued*

As of June 30, 2012, certain of these stock options totalling 1,110,000 stock options, remain subject to escrow and resale restrictions as described above.

The stock options expire as follows: 625,000 options with an average exercise price of $0.15 per share in 2013, 1,525,000 options with an average exercise price of $0.17 per share in 2015 and 2,880,000 options with an average exercise price of $0.44 in 2016.

7. WARRANTS

The issued and outstanding warrants are comprised of the following:

Date of expiry	Warrant Reserve	Number of warrants	Exercise Price
	$		$
November 10, 2012	388,603	2,100,000	0.70
November 10, 2012*	8,420	91,000	0.50
Balance, December 31, 2010	397,023	2,191,000	
February 10, 2013	1,488,423	4,000,000	0.70
February 10, 2013*	323,395	560,000	0.50
August 3, 2013	1,939,413	4,910,666	0.80
August 3, 2013*	411,721	666,493	0.60
Balance, December 31, 2011 and June 30, 2012	**4,559,975**	**12,328,159**	

*These warrants are exercisable into units which have the same terms as the units issued in the November 10, 2010 private placement, the February 10, 2011 IPO and the August 3, 2011 private placement (Note 6).

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

	June 30, 2012		**December 31, 2011**	
	Number of Shares Issuable	Weighted Average Exercise Price	Number of Shares Issuable	Weighted Average Exercise Price
		$		$
Warrants outstanding, beginning of period	12,328,159	0.73	2,191,000	0.69
Granted	-	-	10,137,159	0.73
Warrants outstanding, end of period	12,328,159	0.73	12,328,159	0.73

(Expressed in Canadian dollars - unaudited)

8. SHARE-BASED PAYMENT RESERVE

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

	$
Expired stock options	124,750
Unexpired stock options	1,590,693
Balance, December 31, 2011 and June 30, 2012	**1,715,443**

9. COMMITMENTS AND CONTINGENCIES

The Company has no operating lease commitments. The Company has capital commitments relating to its exploration and evaluation assets as outlined in Note 5.

10. 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

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

(Expressed in Canadian dollars - unaudited)

10. RELATED PARTY TRANSACTIONS - *Continued*

Related party transactions

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

Related party balances

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

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

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

11. 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.

(Expressed in Canadian dollars - unaudited)

11. SEGMENTED INFORMATION - *Continued*

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

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

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