
MONTERO MINING AND EXPLORATION LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 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	September 30, 2012	December 31, 2011
ASSETS		\$	\$
Current assets			
Cash and cash equivalents		352,025	3,249,762
Trade and other receivables		14,878	16,840
Prepaid expenses and deposits		74,872	121,625
Held for sale assets	4	1,608,240	-
Total current assets		2,050,015	3,388,227
Non-current assets			
Reclamation bonds	4	-	32,010
Property, plant and equipment		108,021	122,431
Exploration and evaluation assets	5	9,583,513	10,125,666
Total non-current assets		9,691,534	10,280,107
TOTAL ASSETS		11,741,549	13,668,334
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	10	1,300,523	1,071,596
Total current liabilities		1,300,523	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		(241,396)	57,881
Accumulated deficit		(8,104,037)	(6,247,602)
Total shareholders' equity		10,441,026	12,596,738
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11,741,549	13,668,334

On behalf of the Board:

"Antony Harwood"

Antony Harwood, Director

"Antonia J Chapman"

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		Nine months ended	
	Notes	Sept 30, 2012	Sept 30, 2011	Sept 30, 2012	Sept 30, 2011
		\$	\$	\$	\$
EXPENSES					
Consulting, directors', administrative and management fees	10	167,658	303,895	653,955	673,814
Depreciation		10,056	4,630	32,013	12,758
General and administrative	10	21,812	41,493	69,237	106,753
Other expenses		14,741	59,107	86,703	165,308
Professional fees		22,957	65,896	95,511	215,506
Project investigation costs	10	-	46,735	8,381	102,151
Shareholder and regulatory	10	25,048	110,486	242,429	215,165
Stock-based compensation		-	-	-	713,711
OPERATING LOSS		(262,272)	(632,242)	(1,188,229)	(2,205,166)
OTHER ITEMS					
Impairment of exploration and evaluation assets	5	(42,228)	-	(659,554)	-
Interest income		1,509	14,232	10,645	27,943
Foreign exchange		(2,857)	9,677	(19,297)	(9,200)
		(43,576)	23,909	(668,206)	18,743
NET LOSS		(305,848)	(608,333)	(1,856,435)	(2,186,423)
OTHER COMPREHENSIVE INCOME					
Exchange difference on translating foreign operations		(329,913)	283,135	(299,277)	232,975
COMPREHENSIVE LOSS		(635,761)	(325,198)	(2,155,712)	(1,953,448)
LOSS PER SHARE – BASIC AND DILUTED		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED		54,687,063	44,452,314	54,687,063	43,229,786

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	34,315,730	6,867,365	397,023	472,281	(79,535)	(3,043,410)	4,613,724
Shares issued for:								
Cash	6	17,871,333	9,900,300	—	—	—	—	9,900,300
Share issue costs	6	—	(1,578,788)	735,116	—	—	—	(843,672)
Fair value of warrants issued	6	—	(3,427,836)	3,427,836	—	—	—	—
Stock-based compensation	6	—	—	—	713,711	—	—	713,711
Net loss and comprehensive loss		—	—	—	—	232,975	(2,186,423)	(1,953,448)
Balance, September 30, 2011		52,187,063	11,761,041	4,559,975	1,185,992	153,440	(5,229,833)	12,430,615
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		—	—	—	—	(95,559)	(1,017,769)	(1,113,328)
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		—	—	—	—	(299,277)	(1,856,435)	(2,155,712)
Balance, September 30, 2012		54,687,063	12,511,041	4,559,975	1,715,443	(241,396)	(8,104,037)	10,441,026

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		Nine months ended	
	Sept 30, 2012	Sept 30, 2011	Sept 30, 2012	Sept 30, 2011
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	(305,848)	(608,333)	(1,856,435)	(2,186,423)
Adjustments to loss for non-cash items:				
Depreciation	10,056	4,630	32,013	12,758
Stock-based compensation	-	-	-	713,711
Impairment of exploration and evaluation assets	42,228	-	659,554	-
Net changes in non-cash working capital items:				
Trade and other receivables	(153)	(2,250)	1,962	4,822
Prepaid expenses and deposits	(11,235)	24,747	46,753	(72,056)
Held for sale assets	(11,794)	-	(50,828)	-
Trade and other payables	33,713	102,022	228,927	543,125
Net cash flows (used in) operating activities	(243,033)	(479,184)	(938,054)	(984,063)
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	-	(29,608)	(20,826)	(55,133)
Expenditures on exploration and evaluation assets	(391,300)	(2,284,989)	(1,938,857)	(4,270,721)
Net cash flows (used in) investing activities	(391,300)	(2,314,597)	(1,959,683)	(4,325,854)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	-	5,892,800	-	9,900,300
Share issue costs	-	(453,272)	-	(843,672)
Net cash flows from financing activities	-	5,439,528	-	9,056,628
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(634,333)	2,645,747	(2,897,737)	3,746,711
CASH AND CASH EQUIVALENTS, BEGINNING	986,358	2,627,866	3,249,762	1,526,902
CASH AND CASH EQUIVALENTS, ENDING	352,025	5,273,613	352,025	5,273,613

See accompanying notes to the condensed consolidated financial statements

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(Expressed in Canadian dollars - unaudited)

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, exploration and development 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 September 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), joint development agreements 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.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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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 to a buyer specifically introduced to the Company by the Advisor. The original agreement with the Advisor was 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 expiry of the agreement be extended such that the agreement with the Advisor is in effect until the earlier of i) the date which is nine months from the date of the agreement (i.e., December 22, 2012) and ii) the date the Phosco assets are sold. Accordingly, the above-noted success fee is payable upon a sale of the Phosco assets to a buyer specifically introduced to the Company by the Advisor completed on or before June 22, 2013. 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	50,828
Foreign currency translation	(24,245)
Balance, September 30, 2012	1,608,240

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(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:

	September 30, 2012	December 31, 2011
	\$	\$
Tanzania		
Wigu Hill	8,161,249	6,631,442
Iringa	261,206	250,465
Liwale	366,744	382,992
Canada		
Girard	701,673	1,291,476
Lac Yvonne	92,641	81,657
South Africa		
Phosco	-	1,487,634
	9,583,513	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 summarized 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 outlined 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 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.
- agreement that the Company has duly and validly exercised the First Option and the Second Option, and owns a 70% interest in the Wigu Hill Licences.
- RSR has transferred the Wigu Hill Licences to WHMC which was originally 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.
- dilution provisions were 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 September 30, 2012 were determined to be \$933,227 (USD \$948,691) and have been included in exploration and evaluation assets. Management has not recorded RSR's share as a receivable due to the uncertainty of payment. RSR was put on notice for its contribution required and advised that dilution will occur if payment is not received. As of September 30, 2012, the notice period for receipt of payment has expired and Montero increased its ownership of the Wigu Hill Licences to 80.81%.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Expressed in Canadian dollars - unaudited)

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. During the three months ended September 30, 2012, management has decided not to renew certain licences in the Liwale area and recorded an impairment of exploration and evaluation assets of \$42,228.

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).

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(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	Nine Months ended Sept 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	(33,706)	3,748	4,205	2,188	-	-	(23,565)	56,964
Additions	52,257	5,773	7,739	-	-	-	65,769	1,580,368
Impairment	-	-	(29,975)	-	(431,641)	-	(461,616)	-
Reclassification to: Held for Sale assets	-	-	-	(884,722)	-	-	(884,722)	-
Balance, end of period	1,186,466	169,580	224,809	-	478,305	37,408	2,096,568	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	(224,189)	(6,486)	(11,367)	(10,572)	-	-	(252,614)	126,221
Costs incurred during the period:								
Drilling costs	-	-	-	-	-	-	-	1,773,595
Field and camp costs	348,050	85	3,964	320	1,787	990	355,196	427,542
Geochemical & metallurgical	190,401	1,815	256	911	5,609	-	198,992	377,020
Geological consulting	564,640	5,272	17,109	60,858	3,959	1,980	653,818	1,322,480
Geophysical and maps	16,073	-	-	-	2,463	330	18,866	46,033
Maintenance & environmental	114,631	-	-	4,689	6,635	7,711	133,666	294,069
Motor vehicle costs	74,888	-	499	1,393	-	562	77,342	171,395
Project administration costs	210,172	-	3,088	3	7,562	325	221,150	164,820
Refinery hydromet and testing	147,271	-	-	-	-	-	147,271	272,672
Travel and accommodation	69,319	534	487	1,079	-	-	71,419	150,623
	6,974,783	91,626	154,188	663,781	409,545	56,147	8,350,070	6,725,016
Recoveries and reclassifications during period:								
Exploration tax credits	-	-	-	-	(492)	(914)	(1,406)	(52)
Impairment	-	-	(12,253)	-	(185,685)	-	(197,938)	-
Reclassification to: Held for Sale assets	-	-	-	(663,781)	-	-	(663,781)	-
	-	-	(12,253)	(663,781)	(186,177)	(914)	(863,125)	(52)
Balance, end of period	6,974,783	91,626	141,935	-	223,368	55,233	7,486,945	6,724,964
Total	8,161,249	261,206	366,744	-	701,673	92,641	9,583,513	10,125,666

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(Expressed in Canadian dollars – unaudited)

6. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

At September 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.

MONTERO MINING AND EXPLORATION LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(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 September 30, 2012, 3,646,201 of the above noted shares and 705,000 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:

	September 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	(450,000)	0.31	(25,000)	0.15
Options outstanding and exercisable, end of period	4,655,000	0.32	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.

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6. SHARE CAPITAL – Continued

As of September 30, 2012, certain of these stock options totalling 705,000 stock options, remain subject to escrow and resale restrictions as described above.

The stock options expire as follows: 525,000 options with an average exercise price of \$0.15 per share in 2013, 1,375,000 options with an average exercise price of \$0.17 per share in 2015 and 2,755,000 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 September 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:

	September 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

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8. SHARE-BASED PAYMENT RESERVE

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

	\$
Expired stock options	264,076
Unexpired stock options	1,451,367
Balance, December 31, 2011 and September 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

	Nine months ended Sept 30	
	2012	2011
	\$	\$
<i>Compensation of directors</i>		
Short-term benefits	59,401	38,470
Share-based payments	-	184,800
	59,401	223,270
<i>Compensation of key management personnel</i>		
Short-term benefits	672,769	434,645
Share-based payments	-	408,000
	672,769	842,645
Total remuneration of directors and key management personnel	732,170	1,065,915

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10. RELATED PARTY TRANSACTIONS - Continued

Related party transactions

	Nine months ended Sept 30	
	2012	2011
	\$	\$
<i>Exploration and evaluation asset transactions</i>		
Geological consulting	134,616	225,073
Other	60,025	99
Total exploration and evaluation asset transactions	194,641	225,172
<i>Operating expense transactions</i>		
Consulting, directors', administrative and management fees	82,936	77,185
General and administrative	18,000	20,777
Project investigation costs	1,000	36,592
Shareholder and regulatory	33,294	30,478
	135,230	165,032
Total trading transactions with related parties	329,871	390,204

Related party balances

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

	September 30, 2012	December 31, 2011
	\$	\$
Due to related parties	828,006	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.

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11. SEGMENTED INFORMATION - Continued

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

As at September 30, 2012				
	Canada	Tanzania	South Africa	Total
	\$	\$	\$	\$
Property, plant and equipment	-	108,021	-	108,021
Exploration and evaluation assets	794,314	8,361,357	427,842	9,583,513
Total non-current assets	794,314	8,469,378	427,842	9,691,534

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

12. EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2012, the Company signed a non-binding term sheet with a Strategic Investor ("Investor") whereby the Investor has proposed to provide equity funding at the asset level for the further development of Montero's Wigu Hill Project. The terms and conditions are indicative at this stage, and the Investor is completing further due diligence, the results of which are subject to approval by the Investor's Executive Management and Board of Directors.