Montana Gold Mining Company Inc.
(An Exploration Stage Company)

Condensed Interim Consolidated Financial Statements
(Expressed in United States Dollars)

(unaudited)

For the Nine and Three Months Ended September 30, 2012

Management's Responsibility for Condensed Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Montana Gold Mining Company Inc. (the "Company" or "Montana") are the responsibility of management.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Edward Ellwood"

(signed)

"Eric Plexman"

(signed)

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Montana Gold Mining Company Inc.
(An Exploration Stage Company)

Condensed Interim Consolidated Statement of Financial Position
(Expressed in United States Dollars)
(unaudited)
As at September 30, 2012

		September 30, 2012		December 31, 2011
Assets				
Current Assets				
Cash	**$**	**52,031**	$	76,059
Accounts receivable		**12,121**		-
Prepaid expenses		**1,430**		6,232
		65,582		82,291
Property plant and equipment				
Mineral claims and deferred exploration expenditures (Note 3)		**437,135**		303,892
Reclamation bonds (Note 6)		**40,271**		63,178
	$	**542,988**	$	449,361
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities (Note 4)	**$**	**567,162**	$	388,667
Subscriptions due (Note 5)		**-**		-
		567,162		388,667
Restoration liabilities (Note 6)		**22,000**		22,000
Warrants denominated in a foreign currency (Note 8)		**30,742**		90,464
		619,904		501,131
Shareholders' Equity				
Capital Stock (Note 7)		**7,670,718**		7,459,856
Contributed surplus (Note 9)		**1,502,612**		1,424,034
Deficit		**(9,250,246)**		(8,935,660)
		(76,916)		(51,770)
	$	**542,988**	$	449,361

Litigation (Note 12)

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

Montana Gold Mining Company Inc.

(An Exploration Stage Company)

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(Expressed in United States Dollars)

(unaudited)

For the nine and three months ended September 30, 2012 and 2011

		Nine months ended September 30			Three months ended September 30	
		2012	2011		**2012**	2011
Expenses						
Office and administrative costs (Note 11)		**$ 332,981**	$ 335,011		**$ 109,990**	$ 101,380
Professional fees		**56,040**	90,141		**21,198**	25,850
Reclamation	8	**-**	24,170		**-**	24,170
Stock-based compensation (Note 8)		**78,578**	303,330		**-**	-
Net loss		**467,599**	752,652		**131,188**	151,400
Other comprehensive loss (income)						
Loss (gain) on foreign exchange		**10,883**	(6,039)		**9,216**	(4,105)
Loss (gain) on revaluation of foreign currency warrants (Note 8)		**(163,894)**	(5,800)		**(66,048)**	(5,800)
		(153,011)	(11,839)		**(56,832)**	(9,905)
Net loss and comprehensive loss		**$ (314,588)**	$ (740,813)		**$ (74,356)**	$ (141,495)
Loss per share (Note 10)						
Basic		**$ (0.011)**	$ (0.040)		**$ (0.002)**	$ (0.007)
Diluted		**$ (0.011)**	$ (0.040)		**$ (0.002)**	$ (0.007)
Weighted average number of common shares outstanding (Note 10)						
Basic and diluted		**27,588,306**	18,565,072		**30,631,007**	20,532,527

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

Montana Gold Mining Company Inc.

(An Exploration Stage Company)

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(Expressed in United States Dollars)

(unaudited)

	Number of Shares	**Capital Stock**	**Contributed Surplus**	**Deficit**	**Total**
		(Note 7)	(Note 9)		
Balance, January 1, 2011	**6,049,104 $**	**5,721,063 $**	**1,120,704 $**	**(7,326,174) $**	**(484,407)**
Net loss and comprehensive loss	-	-	-	(740,813)	(740,813)
Stock-based compensation	-	-	303,330	-	303,330
Shares issued for promissory note settlements	5,300,000	703,493	-	-	703,493
Shares issued pursuant to Silver Bell St. Lawrence assignment agreements	2,200,000	422,206	-	-	422,206
Shares issued for management and director fee settlements	2,980,000	148,777	-	-	148,777
Shares issued for legal fee settlements	3,390,380	170,434	-	-	170,434
Units issued for cash	3,000,000	302,865	-	-	302,865
Allocated to warrants		(94,738)	-	-	(94,738)
Balance, September 30, 2011	**22,919,484 $**	**7,374,100 $**	**1,424,034 $**	**(8,066,987) $**	**731,147**
Opening balance adjustment	(7)	-	-	-	-
Net loss and comprehensive loss	-	-	-	(868,673)	(868,673)
Shares issued for management and director fee settlements	1,061,530	85,756	-	-	85,756
Balance, December 31, 2011	**23,981,007 $**	**7,459,856 $**	**1,424,034 $**	**(8,935,660) $**	**(51,770)**
Net loss and comprehensive loss	-	-	-	(314,588)	(314,588)
Stock-based compensation	-	-	78,578	-	78,578
Units issued for cash	6,650,000	315,611	-	-	315,611
Allocated to warrants	-	(104,172)	-	-	(104,172)
Balance, September 30, 2012	**30,631,007 $**	**7,671,295 $**	**1,502,612 $**	**(9,250,248) $**	**(76,341)**

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

Montana Gold Mining Company Inc.

(An Exploration Stage Company)

Condensed Interim Consolidated Statement of Cash Flows

(Expressed in United States Dollars)

(unaudited)

	Nine months ended September 30	
	2012	2011
Cash (used in) provided by:		
Operating Activities		
Total comprehensive loss for the period	**$ (314,588)**	$ (740,813)
Adjustments for:		
Fair Value change in warrant liability	**(163,894)**	(5,800)
Stock based compensation	**78,578**	303,330
	(399,904)	(443,283)
Net changes in non-working capital items:		
Accounts receivable	**(12,121)**	(1,135)
Prepaid expenses	**4,802**	-
Accounts payable and accrued liabilities	**178,496**	140,294
	(228,727)	(304,124)
Investing Activities		
Mineral claims and deferred exploration expenditures	**(133,243)**	(119,000)
Reclamation bonds	**22,907**	-
	(110,336)	(119,000)
Financing Activities		
Proceeds from share issuances, net	**315,035**	292,214
Proceeds from promissory note issuance	**-**	70,249
	315,035	362,463
Net change in cash	**(24,028)**	(60,661)
Cash, beginning of period	**76,059**	170,436
Cash, end of period	**$ 52,031**	$ 109,775

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Montana Gold Mining Company Inc. ("the Company" or "Montana") was incorporated under the Ontario Business Corporations Act on December 21, 2000. The Company has two wholly-owned subsidiary Corporations, Gold Reef of Nevada Inc., a United States corporation incorporated on December 2, 2004, and Celerity Mineral Corporation, a Canadian corporation incorporated under the Canada Business Corporations Act on April 25, 2012. The Company and its subsidiaries are engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The head office and principal address of the Company is 380 Wellington Street, 6th Floor, London City Centre, Tower B, London, Ontario, N6A 5B5.

While these condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern.

During the period ended September 30, 2012, the Company incurred a net loss of $314,588 and, as of that date, the Company had accumulated a deficit of $9,250,246, a working capital deficiency of $503,010 and negative cash flows from operations of $228,727. These factors create material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs.

Recovery of the carrying value of the mining claims and the related deferred exploration expenditures are dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to resolve the outstanding litigation (Note 12), the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties.

These condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments would be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These unaudited condensed interim consolidated financial statements present the Company's financial results of operations and financial position under International Financial Reporting Standards ("IFRS") as at and for the nine and three month periods ended September 30, 2012, including 2011 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors on November 26, 2012.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Gold Reef of Nevada, Inc. (United States) and Celerity Mineral Corporation (Canada). The functional currency and presentation currency of Gold Reef of Nevada is the United States dollar. The functional currency of Celerity Mineral Corporation is the Canadian dollar. The presentation currency of Celerity Mineral Corporation is the United States dollar. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

The remaining accounting policies adopted are consistent with those of the Company's consolidated financial statements for the year ended December 31, 2011. Refer to these consolidated financial statements for significant accounting policies and recent accounting pronouncements.

(Expressed in United States Dollars)

3. MINERAL CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

		January 1, 2012		Additions		Write-offs		September 30, 2012
Silver Bell St. Lawrence Claims, MT [(a)]	$	301,652	$	112,179	$	-	$	**413,831**
Golden Trail Claims, NV [(b)]		2,240		21,064		-		**23,304**
	$	303,892	$	133,243	$	-	$	**437,135**

		January 1, 2011		Additions		Write-offs		December 31, 2011
Silver Bell St. Lawrence Claims, MT [(a)]	$	139,512	$	162,140	$	-	$	301,652
Golden Trail Claims, NV [(b)]		2,240		-		-		2,240
	$	141,752	$	162,140	$	-	$	303,892

(a) Silver Bell St. Lawrence

On September 1, 2011 the Company entered into an agreement to acquire a 100% working interest in the SBSL Property by paying $85,000 on signing and $85,000 by March 1, 2012, for total consideration of $170,000, and by issuing 200,000 common shares of the Company and granting a 2% Net Smelter Royalty to the arms-length vendor. Title to the properties will be registered in the name of the Company after the last $85,000 payment is made, at which time the vendor shall provide to the Company all forms necessary to effect registration in the name of the Company including quit claim deeds. This agreement supersedes the prior option agreement of August 1, 2010 which is terminated. The Company paid $85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. The Company paid the last $85,000 on February 24, 2012.

On October 27, 2011, the Company staked 15 additional mining claims adjacent to the northern and eastern boundaries of the SBSL Property. The newly staked claims are called the Roar claims and bring the total size of the SBSL Property to approximately 394 acres.

On June 11, 2012, the Company completed an NI43-101 Report on the SBSL Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $140 per claim.

(Expressed in United States Dollars)

(b) Golden Trail

As at September 30, 2012, the Company holds 16 (December 31, 2011 - 16) contiguous unpatented mining claims in the Elko County region of Nevada totaling approximately 320 acres.

On May 15, 2012, the Company completed an NI43-101 Report on the Golden Trail Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $140 per claim.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		September 30, 2012		December 31, 2011
Trade payables	**$**	**167,664**	$	162,938
Accrued liabilities:				
Management and director fees		**384,158**		187,872
Audit and accounting		**15,340**		37,857
	$	**567,162**	$	388,667

5. SUBSCRIPTIONS DUE

During the nine months ended September 30, 2012, the Company issued all shares required from funds received in advance of share subscriptions due:

Date Received		**Amount**
(Canadian Dollar)		
January 31, 2012	$	10,000
February 15, 2012		20,000
March 5, 2012		15,000
March 19, 2012		5,000
May 23, 2012		150,000
Total funds received for subscriptions (CAD)	$	200,000
Shares issued, April 24, 2012 (Note 7[(i)(b)])		(50,000)
Shares issued, June 19, 2012 (Note 7[(i)(c)])		(150,000)
Add: foreign exchange		-
Subtotal - US Dollars	$	-
(US Dollar)		
June 7, 2012	$	12,500
Shares issued, June 19, 2012 (Note 7[(i)(c)])		(12,500)
	$	-
Subscriptions due in US dollars	**$**	**-**

6. RESTORATION LIABILITIES

As at September 30, 2012, management estimated site restoration costs relating to exploration work completed to date on the Rimrock property to be $22,000 which has been accrued. These costs are estimated by management and approved by the Nevada State Office of the Bureau of Land Management ("BLM"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds issued relating to this property is $25,000. The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration.

Included in the reclamation bond balance is a bond in the amount of $15,271 for an exploration program on the Golden Trail property for which the site restoration work has been performed. During the period ended September 30, 2012, the BLM released a reclamation bond in the amount of $22,907 to the Company which reduced the bonds held at December 31, 2011 in the amount of $38,178 to the September 30, 2012 balance of $15,271. However the Company may be liable for additional amounts if the BLM determines that the site restoration work was deficient and the amount of the bond is not sufficient to cover the cost of the additional work required to fully return the site to its original condition.

(Expressed in United States Dollars)

7. CAPITAL STOCK

(a) Authorized
Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
Balance, December 31, 2010	**6,049,104**	**$ 5,721,063**
Opening balance adjustment	(7)	-
Shares issued for promissory note settlements	5,300,000	703,493
Shares issued pursuant Silver Bell St. Lawrence assignment agreements	2,200,000	422,206
Shares issued for management and director fee settlements	4,041,530	234,533
Shares issued for legal fee settlements	3,390,380	170,434
Units issued for cash	3,000,000	302,865
Allocated to warrants		(94,738)
Balance, December 31, 2011	**23,981,007**	**$ 7,459,856**
Units issued for cash (i)	6,650,000	315,034
Allocated to warrants (i)		(104,172)
Balance, September 30, 2012	**30,631,007**	**$ 7,670,718**

(i) (a) On February 8, 2012, the Company issued 1,400,000 units with an ascribed value of $0.05CDN per unit for proceeds of $70,000CDN ($70,273 USD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of $0.10CDN up to February 8, 2013 and then at a price of $0.20CDN up to February 8, 2014.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	$0.03 CDN
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.09%
Expected life	2.0 years
Expected volatility (based on historical prices)	328%

Using the relative fair value approach, the Company determined the amount relating to the warrants in the unit issuance to be $20,057 (Note 8)

These warrants are not in the Company's functional currency (Note 8).

(Expressed in United States Dollars)

(b) On April 24, 2012, the Company issued 2,000,000 units with an ascribed value of $0.05CDN per unit for proceeds of $100,000CDN ($101,210 USD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of $0.10CDN up to April 24, 2013 and then at a price of $0.20CDN up to April 24, 2014.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	$0.04 CDN
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.40%
Expected life	2.0 years
Expected volatility (based on historical prices)	303%

Using the relative fair value approach, the Company determined the amount relating to the warrants in the unit issuance to be $32,903 (Note 8)

These warrants are not in the Company's functional currency (Note 8).

(c) On June 19, 2012, the Company issued 3,250,000 units with an ascribed value of $0.05CDN per unit for proceeds of $162,500CDN ($159,591 USD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of $0.10CDN up to June 19, 2013 and then at a price of $0.20CDN up to June 19, 2014.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	$0.04 CDN
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.40%
Expected life	2.0 years
Expected volatility (based on historical prices)	303%

Using the relative fair value approach, the Company determined the amount relating to the warrants in the unit issuance to be $51,212 (Note 8)

These warrants are not in the Company's functional currency (Note 8).

Share issue costs of $16,040 are deducted from the gross proceeds.

(Expressed in United States Dollars)

8. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

	September 30, 2012		December 31, 2011	
	Number of Options	**Weighted Average Exercise Price (CDN)**	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of period	**20,000**	**$ 7.00**	20,000	$ 7.00
Granted [i]	**2,600,000**	**$ 0.10**	1,150,000	$ 0.26
Cancelled	**-**	**$ -**	(1,150,000)	$ 0.26
Forfeited [ii]	**(10,000)**	**$ 9.10**	-	$ -
Outstanding, end of period	**2,610,000**	**$ 0.12**	20,000	$ 7.00
Exercisable, end of period	**2,610,000**	**$ 0.12**	20,000	$ 7.00

The Company had the following stock options outstanding at September 30, 2012:

Number of Options	**Exercise Price (CDN)**	**Expiry Date**
10,000	$ 4.90	November 15, 2012
2,600,000	$ 0.10	May 1, 2017
2,610,000	**$ 0.12**	

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive.

(i) On May 1, 2012, the Company granted 2,600,000 stock options to directors (2,350,000) and a consultant (250,000). These options vest immediately. Each option entitles the holder to purchase one common share at $0.10 per share at any time on or before May 1, 2017.

(Expressed in United States Dollars)

In the absence of a reliable measurement of the services received, the transaction has been measured at the fair value of the stock options issued. The fair value of these stock options of $78,578 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Stock price	$0.03
Expected dividend yield	Nil
Risk-free interest rate	1.53%
Expected life	5.0 years
Expected volatility (based on historical prices)	258%
Foreign exchange rate	1.0144

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(ii) On January 17, 2012, 10,000 options granted to a consultant expired.

(b) Warrants

The following summarizes the change in warrants denominated in a foreign currency:

	September 30 2012	December 31 2011
Balance, beginning of year	**90,464**	-
Warrants issued September 12, 2011 private placement	**-**	94,738
Warrants issued February 8, 2012 private placement (Note 7(i)(a))	**20,057**	-
Warrants issued April 24, 2012 private placement (Note 7(i)(b))	**32,903**	-
Warrants issued June 19, 2012 private placement (Note 7(i)(c))	**51,212**	-
Mark to market adjustment	**(163,894)**	(4,274)
Exercised	**-**	-
Expired	**-**	-
Balance, end of period	**30,742**	90,464

Warrants denominated in a foreign currency different from the functional currency of the Company meet the definition of a financial liability and accordingly are presented as such on the Company's condensed interim consolidated statement of financial position and are fair valued at each period end using the Black-Scholes option pricing model.

a) At September 30, 2012, the fair value of the 2,800,000 warrants issued on September 12, 2011 was estimated at $4,873 ($4,790CDN) using the Black-Scholes pricing model with the following assumptions:

(Expressed in United States Dollars)

Share price	$0.025
Expected dividend yield	Nil
Exercise price	$0.20 - $0.30 CDN
Risk-free interest rate	1.08%
Expected life	0.951 years
Expected volatility (based on historical prices)	171%

These warrants were revalued at $90,464 on December 31, 2011.

b) At September 30, 2012, the fair value of the 1,400,000 warrants issued on February 8, 2012 was estimated at $5,015 ($4,930CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	$0.025
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.08%
Expected life	1.356 years
Expected volatility (based on historical prices)	163%

These warrants were valued at $20,057 on the date of issuance (Note 7(i)(a))

c) At September 30, 2012, the fair value of the 2,000,000 warrants issued on April 24, 2012 was estimated at $7,253 ($7,130CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	$0.025
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.08%
Expected life	1.564 years
Expected volatility (based on historical prices)	152%

These warrants were valued at $32,903 on the date of issuance (Note 7(i)(b))

d) At September 30, 2012, the fair value of the 3,250,000 warrants issued on June 19, 2012 was estimated at $13,601 ($13,370CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	$0.025
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk-free interest rate	1.08%
Expected life	1.718 years
Expected volatility (based on historical prices)	153%

These warrants were valued at $51,212 on the date of issuance (Note 7(i)(c))

(Expressed in United States Dollars)

A gain on revaluation of foreign currency warrants of $163,894 was recognized at September 30, 2012 and is included in the condensed interim consolidated statement of loss and comprehensive loss.

The Company had the following warrants outstanding at September 30, 2012

Number of Warrants		**Exercise Price**	**Expiry Date**
2,800,000	(i)	$0.30	September 12, 2013
1,400,000	(ii)	$0.10	February 8, 2013
		$0.20	February 8, 2014
2,000,000	(ii)	$0.10	April 24, 2013
		$0.20	April 24, 2014
3,250,000	(ii)	$0.10	June 19, 2013
		$0.20	June 19, 2014
9,450,000			

(i) Each warrant entitles the holder to purchase one Common Share at a price of $0.20 CAD per share for a period of 12 months from the closing date, which expired September 12, 2012, and then at a price of $0.30 CAD per share for a period of 24 months from the closing date.

(ii) Each warrant entitles the holder to purchase one Common Share at a price of $0.10 CAD per share for a period of 12 months from the closing date and then at a price of $0.20 CAD per share for a period of 24 months from the closing date.

9. CONTRIBUTED SURPLUS

Contributed surplus consists of the fair value of options granted and the value of expired warrants. The following summarizes the change in contributed surplus:

	September 30, 2012	December 31, 2011
Balance, beginning of period	**$ 1,424,034**	$ 1,120,704
Stock-based compensation expense (Note 8(a))	**78,578**	303,330
Balance, end of period	**$ 1,502,612**	$ 1,424,034

(Expressed in United States Dollars)

10. LOSS PER SHARE

The calculation of basic and diluted loss per share for the nine month period ended September 30, 2012 was based on the loss attributable to common shareholders of $314,588 (September 30, 2011 - $740,813) and the weighted average number of common shares outstanding of 27,588,306 (September 30, 2011 – 18,565,072). The calculation of basic and diluted loss per share for the three month period ended September 30, 2012 was based on the loss attributable to common shareholders of $74,356 (September 30, 2011 - $141,495) and the weighted average number of common shares outstanding of 30,631,007 (September 30, 2011 – 20,532,527).

Diluted loss per share did not include the effect of 2,610,000 stock options and 9,450,000 warrants outstanding as they are anti-dilutive.

11. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Remuneration of Directors and key management of the Company was as follows:

	September 30 2012	September 30 2011
Share based payment (Note 9) (i)	**$ 78,578**	$ 303,330
Management and director fees (ii)	**284,173**	242,512
	$ 362,751	$ 545,842

(i) Fair market value of stock options issued to officers and directors.

(ii) Included in office and administrative costs in the consolidated statements of loss and comprehensive loss.

Other related party balances are listed below:

(a) Included in accounts payable and accrued liabilities is approximately $384,158 (December 31, 2011 - $187,872) of amounts owing to directors of the Company for management and director fees.

12. LITIGATION

On February 15, 2010, the Company was named along with former directors of the Company and served with a claim in The District Court, 150th Judicial District, Bexar County, Texas. This lawsuit was subsequently removed to the U.S. District Court for the Western District of Texas, San Antonio Division. The Plaintiff is alleging several past directors of the Company have used trade secrets or confidential information belonging to the Plaintiff for the Company's benefit in violation of laws protecting this type of information. The Plaintiff is claiming monetary damages against all of the named Defendants, which include the Company, of $30,000,000, and the Company continues defending the lawsuit along with all other defendants.

In February 2012, the Court dismissed all claims against all of the named Defendants, including the Company. In early March, 2012, the Plaintiff filed an appeal which is ongoing and which the Company will defend.

The outcome of the appeal is not determinable and therefore no provision is recorded.