

Montana Gold Mining Company Inc.

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Montana Gold Mining Company Inc.

We have audited the accompanying consolidated financial statements of Montana Gold Mining Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montana Gold Mining Company Inc. and its subsidiaries as at December 31, 2012 and December 31, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 1 in the consolidated financial statements which describes material uncertainties that cast significant doubts about Montana Gold Mining Company Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants

Chartered Accountants

April 29, 2013

Toronto, Ontario

Montana Gold Mining Company Inc.
Consolidated Statements of Financial Position
(Expressed in United States Dollars)
As at December 31, 2012 and 2011

	2012	2011
Assets		
Current		
Cash	\$ 16,273	\$ 76,059
HST receivable	2,602	-
Prepaid expenses	1,206	6,232
	20,081	82,291
Mining claims and deferred exploration expenditures (Note 4)	450,804	303,892
Reclamation bonds (Note 7)	40,271	63,178
	\$ 511,156	\$ 449,361
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 5 and 13)	\$ 643,303	\$ 388,667
Restoration liabilities (Note 7)	22,000	22,000
Warrants denominated in a foreign currency (Note 10)	18,500	90,464
	683,803	501,131
Shareholders' Deficiency		
Capital stock (Note 9)	7,652,666	7,459,856
Contributed surplus	1,502,612	1,424,034
Deficit	(9,327,925)	(8,935,660)
	(172,647)	(51,770)
	\$ 511,156	\$ 449,361

Nature of Operations and Going Concern (Note 1)
Litigation (Note 17)
Subsequent event (Note 18)

Approved by the Board "Edward Ellwood"
Director (Signed)

 "Eric Plexman"
Director (Signed)

Montana Gold Mining Company Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars)
Years Ended December 31, 2012 and 2011

	2012	2011
Expenses		
Office and administrative costs	\$ 439,816	\$ 383,303
Professional fees	61,779	173,677
Reclamation work (Note 7)	-	4,362
Stock-based compensation (Note 10)	78,578	303,330
	580,173	864,672
Other income (expense)		
Loss (gain) on foreign exchange	6,283	(3,375)
Gain on revaluation of foreign currency warrants (Note 10)	(194,191)	(4,274)
Loss on debt settlement (Note 8)	-	752,463
	(187,908)	744,814
Net loss and comprehensive loss	\$ (392,265)	\$ (1,609,486)

Loss per share (Note 11)

Basic and diluted	\$ (0.01)	\$ (0.08)
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Weighted average number of common shares outstanding (Note 11)

Basic and diluted	28,353,138	19,918,546
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Montana Gold Mining Company Inc.
Consolidated Statements of Changes in Equity
(Expressed in United States Dollars)
Years Ended December 31, 2012 and 2011

	Number of Shares	Capital Stock (Note 9)	Contributed Surplus (Note 10)	Net loss	Total
Balance, December 31, 2010	6,049,104	\$ 5,721,063	\$ 1,120,704	\$ (7,326,174)	\$ (484,407)
Opening balance adjustment	(7)	-	-	-	-
Net loss and comprehensive loss	-	-	-	(1,609,486)	(1,609,486)
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	4,041,530	234,533	-	-	234,533
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, December 31, 2011	23,981,007	\$ 7,459,856	\$ 1,424,034	\$ (8,935,660)	\$ (51,770)
Net loss and comprehensive loss	-	-	-	(392,265)	(392,265)
Stock-based compensation	-	-	78,578	-	78,578
Units issued for cash	6,650,000	315,037	-	-	315,037
Allocated to warrants	-	(122,227)	-	-	(122,227)
Balance, December 31, 2012	30,631,007	\$ 7,652,666	\$ 1,502,612	\$ (9,327,925)	\$ (172,647)

Montana Gold Mining Company Inc.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2012 and 2011

	2012	2011
Cash provided by (used in)		
Operations		
Net loss	\$ (392,265)	\$ (1,609,486)
Items not affecting cash		
Loss on debt settlement	-	752,463
Gain on revaluation of foreign currency warrants	(194,191)	(4,274)
Release of restoration liability	-	(20,501)
Stock based compensation	78,578	303,330
	(507,878)	(578,468)
Net changes in non-cash working capital		
HST receivable	(2,602)	-
Prepaid expenses	5,026	(6,232)
Accounts payable and accrued liabilities	254,636	271,683
	(250,818)	(313,017)
Investing		
Mining claims and deferred exploration expenditures	(146,912)	(141,814)
Reclamation bonds	22,907	20,501
Restoration liability	-	(3,000)
	(124,005)	(124,313)
Financing		
Proceeds from share issuances, net	315,037	272,704
Proceeds from promissory note issuances	-	70,249
	315,037	342,953
Net change in cash during the year	(59,786)	(94,377)
Cash, beginning of year	76,059	170,436
Cash, end of year	\$ 16,273	\$ 76,059

Montana Gold Mining Company Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

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 four wholly-owned subsidiary corporations, Gold Reef of Nevada, Inc., a United States Corporation, Montana Gold Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012, Celerity Mineral Corporation, a Canadian corporation, incorporated under the Canada Business Corporations Act on April 25, 2012 and Celerity Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012. The Company is 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 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 year ended December 31, 2012, the Company incurred a net loss of \$392,265 (2011 - \$1,609,486) and, as of that date, the Company had accumulated a deficit of \$9,327,925 (2011 - \$8,935,660), a working capital deficiency of \$623,222 (2011 - \$306,376) and negative cash flows from operations of \$250,818 (2011 - \$313,017). 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 17), 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 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

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). These 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 year ended December 31, 2012, including 2011 comparative periods.

The consolidated financial statements of the Company were approved by the Board of Directors on April 29, 2012.

A summary of the Company's significant accounting policies under IFRS are presented below. These policies have been consistently applied.

Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation.

Information regarding significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to measurement of the recoverable amounts of mining claims and deferred exploration expenditures, measurement of share-based payments, the amount accrued for restoration liabilities, the valuation of stock options and warrants issued and provisions for legal claims.

Montana Gold Mining Company Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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) Celerity Mineral Corporation (Canada), Celerity Subsidiary Corporation (United States) and Montana Gold Subsidiary Corporation (United States). The functional currency and presentation currency of each entity 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.

Financial Instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

Montana Gold Mining Company Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company's financial assets include cash and reclamation bonds. The Company's financial liabilities include accounts payable and accrued liabilities, warrants denominated in a foreign currency and restoration liabilities. Classification of these financial instruments is as follows

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Reclamations bonds	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Restoration liabilities	Other financial liabilities
Warrants denominated in a foreign currency	FVTPL

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of loss.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value on the balance sheet consist of cash. Cash is measured at level 1 of the fair value hierarchy while warrants denominated in a foreign currency are measured at level 2 of the fair value hierarchy.

Mining Claims and Deferred Exploration Expenditures

Mining claims and deferred exploration expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling, and; evaluating the technical feasibility and commercial viability of extracting a mineral resource.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining claims and deferred exploration expenditures, including costs of acquiring licenses, are capitalized as mining claims and deferred exploration expenditures on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proven to exist and, in most cases, comprises a single mine or deposit.

Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits. The Company expenses all costs incurred prior to obtaining legal rights to a mineral property.

Mining claims and deferred exploration expenditure assets are recognized if the rights to the project are current and either (1) the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale, and (2) active and significant operations in, or in relation to, the project are continuing.

Deferred exploration and evaluation expenditures are initially capitalized as intangible deferred exploration and evaluation assets. Such deferred exploration expenditures may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible deferred exploration expenditure asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, deferred exploration expenditure assets attributable to that project are first tested for impairment and then reclassified to Mine Property and Development Projects. Currently, the Company does not hold any assets classified as Mine Property and Development Projects.

Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position reporting date. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the (1) asset's fair value less costs to sell and (2) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment (Cont'd)

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates, or is expected to generate, cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Montana Gold Mining Company Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Foreign Currency Translation

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the consolidated statement of financial position date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the consolidated statement of loss and comprehensive loss.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

Income Taxes (Cont'd)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-based Compensation Transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options issued for employee services is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. At each reporting date, the Company revises its estimates of the number of options that are expected to vest, based on the non-marketing vesting conditions. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued for non-employee services and some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the share-based payment. Otherwise, the stock-based compensations are measured at the fair value of goods or services received.

Income/Loss Per Share

The Company presents basic and diluted income/loss per share data for its common shares. Basic income/loss per share is calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. Diluted income per share does not adjust the loss attributed to the common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Restoration Liabilities

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates using a pre tax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reasonable estimate can be made of the amount of the obligation. Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company's liability.

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Warrants Denominated in a Foreign Currency

Warrants denominated in a foreign currency different from the functional currency of the Company meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes pricing model, with changes in the fair value recognized in income or loss.

Fair values of warrants are determined based on estimated fair values at the valuation date using the Black-Scholes option pricing model.

Warrants that are issued as compensation are not subsequently revalued.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

The accounting pronouncements detailed in this note have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

- a) IFRS 9 "Financial Instruments" ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IFRS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

3. FUTURE ACCOUNTING PRONOUNCEMENTS (Cont'd)

- b) IFRS 10 "Consolidated Financial Statements" ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 "Consolidation—Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements" and is effective for annual periods beginning on or after January 1, 2013.

In October 2012, the IASB amended IFRS 10 to require investment entities to measure subsidiaries at fair value through profit or loss. The amendment is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

- c) IFRS 11 "Joint Arrangements" ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers", and is effective for annual periods beginning on or after January 1, 2013.
- d) IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.
- e) IFRS 13 "Fair Value Measurement" (IFRS 13") was issued by the IASB in May 2011. IFRS 13 provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The standard is effective for annual periods beginning on or after January 1, 2013.
- f) IFRIC Interpretation 20, "Stripping Costs in the Production Phase of a Surface Mine" ("IFRIC 20") was issued by the IFRIC in October 2011. IFRIC 20 applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 may represent a change in accounting practice for some Canadian mining entities. Specifically, IFRIC 20 permits capitalization of stripping costs if all of the following three criteria are met:
- probability of future economic benefit (improved access to the ore body) flowing to the entity;
 - identifiability of the component of the ore body for which access has been improved; and
 - measurability of the costs associated to the stripping activity.

Furthermore, where the costs of the stripping activity asset and of the inventory produced are not separately identifiable, IFRIC 20 provides a more detailed cost allocation guidance based on a relevant production measure that allows allocation between inventory produced and the stripping activity asset. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Montana Gold Mining Company Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2012 and 2011

3. FUTURE ACCOUNTING PRONOUNCEMENTS (Cont'd)

- g) IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") was amended by the IASB in December 2011 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013.
- h) IAS 1 "Presentation of Financial Statements" ("IAS 1") was amended by the IASB in June 2011 requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted.

4. MINING CLAIMS AND DEFERRED EXPLORATION COSTS

	December 31, 2011	Additions	Write-offs	December 31 2012
Silver Bell St. Lawrence Claims, MT ^(a)	\$ 301,652	\$ 115,134	\$ -	\$ 416,786
Golden Trail Claims, NV ^(b)	2,240	31,778	-	34,018
	\$ 303,892	\$ 146,912	\$ -	\$ 450,804

	December 31, 2010	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 Silver Bell St. Lawrence ("SBSL") property by paying \$85,000 on signing and \$85,000 by March 1, 2012, for total consideration of \$170,000, 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. 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 at which time the title to the properties was transferred to the Company.

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4. MINERAL CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

(a) Silver Bell St. Lawrence (Cont'd)

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.

(b) Golden Trail

As at December 31, 2012, the Company holds 16 (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.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a breakdown of the amounts included in accounts payable:

	2012	2011
Trade payables	\$ 154,758	\$ 162,938
Accrued liabilities:		
Management and director fees	450,963	187,872
Audit and accounting	37,582	37,857
	\$ 643,303	\$ 388,667

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6. PROMISSORY NOTES PAYABLE

During 2011, the Company received Canadian funds pursuant to the issuance of promissory notes to arm's length individuals.

All promissory notes were paid as of December 31, 2011. The following is a list of the promissory notes activity as of December 31, 2011:

Date Issued	Amount (Canadian Dollar)
July 15, 2010	\$ 100,000
August 2, 2010	10,000
October 15, 2010	10,000
October 25, 2010	75,000
January 28, 2011	55,000
February 4, 2011	15,000
Total promissory notes	265,000
Less: Settled through the issuance of common shares ⁽ⁱ⁾	265,000
Add: foreign exchange	-
Total Promissory Notes in United States Dollars	\$ -

(i) During the year ended December 31, 2011, the Company settled promissory notes payable in the amount of \$265,000 CDN through the issuance of 5,300,000 common shares (Note 9).

The promissory notes were non-interest bearing, unsecured and are to be repaid on or before the 45th day after the next meeting of the shareholders of the Company from the date issued.

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7. RESTORATION LIABILITIES

As at December 31, 2012, management estimated site restoration costs relating to exploration work completed to date on the Rimrock property, a former property of the Company, to be \$22,000 (2011 - \$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 (2011 - \$25,500). The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration.

During the year ended December 31, 2011 the Company paid \$3,000 relating to reclamation work on the Rimrock property which was applied as a reduction of the reclamation liability for this property and the BLM released 2 reclamation bonds totaling \$20,501 to the Company which reduced the reclamation bonds by this amount. The restoration liability previously accrued in the amount of \$20,501 was expensed to reclamation work.

Included in the reclamation bond balance is a bond in the amount of \$15,271 (2011 - \$38,178) for an exploration program on the Golden Trail property for which the site restoration work has been performed. During the year ended December 31, 2012, the BLM released a reclamation bond in the amount of \$22,907 to the Company which reduced the reclamation bonds by this amount. 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.

8. SETTLEMENT OF DEBT

Up until February 8, 2011, the Company issued 13,670,380 shares to promissory note holders, former and current directors or members of management and to the SBSL assignment payment holder to settle promissory notes payable, management and director fees payable and the SBSL assignment payable. Also, the Company issued 200,000 shares for cash proceeds. These shares were issued to these individuals with an ascribed value of \$0.05 CDN per share. However, the issuance for 5,400,000 of these shares did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN and the bid price of the Company's shares on the dates of issuance, \$0.20 CDN, has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss, the aggregate of this difference is \$813,696 (Note 9). During this period, the Company had a price protection agreement with the Canadian National Stock Exchange ("CNSX") that enabled the issuance of the Company's shares at \$0.05 CDN.

On October 5, 2011, the Company issued 1,061,530 shares to management and directors to settle management and director fees payable. These shares were issued to these individuals with an ascribed value of \$0.10 CDN per share. However, on the date of issuance the bid price of the Company's shares was \$0.04 CDN, as a result the difference between the ascribed value of \$0.10 CDN and the bid price of the Company's shares on the dates of issuance, \$0.04 CDN, which results in a gain on debt settlement of \$61,233 (Note 9), has been netted in the loss on debt settlement in the consolidated statement of loss and comprehensive loss.

The aggregate loss on debt settlement was \$752,463 for the year ended December 31, 2011.

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9. CAPITAL STOCK

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 ⁽ⁱ⁾	5,300,000	703,493
Shares issued pursuant to Silver Bell St. Lawrence assignment agreements ^(ii and vii)	2,200,000	422,206
Shares issued for management and director fee settlements ⁽ⁱⁱⁱ⁾	4,041,530	234,533
Shares issued for legal fee settlements ^(iv)	3,390,380	170,434
Units issued for cash ^(v and vi)	3,000,000	302,865
Allocated to warrants ^(v)	-	(94,738)
Balance, December 31, 2011	23,981,007	\$ 7,459,856
Units issued for cash ^(viii)	6,650,000	315,037
Allocated to warrants ^(viii)	-	(122,227)
Balance, December 31, 2012	30,631,007	\$ 7,652,666

- (i) On January 3, 2011, the Company issued 3,700,000 shares with an ascribed value of \$0.05 CDN per share to settle promissory notes of \$185,000 CDN (\$185,870 USD) and issued 1,600,000 shares with an ascribed value of \$0.05 CDN per share to settle promissory notes in the amount of \$80,000 CDN (\$80,432 USD (Note 7).

Regarding the 3,700,000 shares issued, the issuance of 1,500,000 shares included in this total did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN and the bid price of the Company's shares on the date of issuance (January 26, 2011), which was \$0.20 CDN, has been added to the value of the shares issued in the amount of \$225,000 CDN (\$226,057 USD) and has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN.

Regarding the 1,600,000 shares issued, the issuance of 1,400,000 shares included in this total did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN and the bid price of the Company's shares on the date of issuance (February 8, 2011), which was \$0.20 CDN, has been added to the value of the shares issued in the amount of \$210,000 CDN (\$211,134 USD) and has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN.

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9. CAPITAL STOCK (Cont'd)

- (ii) On January 3, 2011 the Company issued 2,000,000 shares with an ascribed value of \$0.05 CDN per share as consideration for the Silver Bell St. Lawrence assignment agreement (Note 4) in the amount of \$100,000 CDN (\$100,470 USD).

Regarding the 2,000,000 shares issued, the issuance of these shares did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN and the bid price of the Company's shares on the date of issuance (January 26, 2011), which was \$0.20 CDN, has been added to the value of the shares issued in the amount of \$300,000 CDN (\$301,410 USD) and has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN.

- (iii) On January 3, 2011, the Company issued 2,980,000 shares with an ascribed value of \$0.05 CDN per share to directors of the Company to settle amounts owing for management and director fees of \$149,000 CDN (\$148,779 USD) due as of December 31, 2010. On October 5, 2011, the Company issued 1,061,530 shares with an ascribed value of \$0.10 per share to directors of the Company to settle amounts owing for management and director fees of \$106,153 CDN (\$102,054 USD) due as of June 30, 2011.

Regarding the 2,980,000 shares issued, the issuance of 300,000 shares included in this total did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN and the bid price of the Company's shares on the date of issuance (January 30, 2011), which was \$0.20 CDN, has been added to the value of the shares issued in the amount of \$45,000 CDN (\$44,933 USD) and has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN.

Regarding the 1,061,530 shares issued, the bid price of the Company's shares on the date of issuance was \$0.04 CDN, as a result the difference between the ascribed value of \$0.10 CDN and the bid price of the Company's shares on the date of issuance, which was \$0.04 CDN, has been subtracted from the value of the shares issued in the amount of \$63,692 CDN (\$61,233 USD). This gain has been netted in the loss on debt settlement in the consolidated statement of loss and comprehensive loss.

- (iv) On January 3, 2011, the Company issued 3,390,380 shares with an ascribed value of \$0.05CDN per share to settle legal fees owing to a former director in the amount of \$169,519CDN (\$170,434 USD).

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9. CAPITAL STOCK (Cont'd)

- (v) On January 3, 2011, the Company issued 200,000 shares with an ascribed value of \$0.05 CDN per share for proceeds of \$10,000 CDN (\$10,054 USD).

Regarding the 200,000 shares issued, the issuance of these shares did not occur until such time when the bid price of the Company's shares was \$0.20 CDN, as a result the difference between the ascribed value of \$0.05 CDN the market value of the Company's shares on the date of issuance (February 8, 2011), which was \$0.20 CDN, has been added to the value of the shares issued in the amount of \$30,000 CDN (\$30,162 USD) and has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN.

- (vi) On September 12, 2011, the Company issued 2,700,000 units with an ascribed value of \$0.10 CDN per share for proceeds of \$270,000 CDN (\$272,160 USD) and 100,000 units with an ascribed value of \$0.10 per share for proceeds of \$10,000. Share issuance costs relating to these share issuances amounted to \$19,511. 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 \$0.20 CDN up to September 12, 2012 and then at a price of \$0.30 CDN up to September 12, 2013.

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	\$0.095 CDN
Expected dividend yield	Nil
Exercise price	\$0.20 - \$0.30 CDN
Risk free interest rate	0.92%
Expected life	2.0 years
Expected volatility (based on historical prices)	324%

The Company determined the amount relating to the warrants in the unit issuance to be \$94,738 (Note 10(b)).

These warrants are not in the Company's functional currency (see Note 10(b)).

- (vii) On September 15, 2011, the Company issued 200,000 shares with an ascribed value of \$0.10 CDN per share as consideration for the Silver Bell St. Lawrence property agreement in the amount of \$20,000 CDN (\$20,326 USD) (Note 4).

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9. CAPITAL STOCK (Cont'd)

- (viii) (a) On February 8, 2012, the Company issued 1,400,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$70,000 CDN (\$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 \$0.10 CDN up to February 8, 2013 and then at a price of \$0.20 CDN 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%

The Company determined the amount relating to the warrants in the unit issuance to be \$20,058 (Note 10(b)).

These warrants are not in the Company's functional currency (Note 10(b)).

- (b) On April 24, 2012, the Company issued 2,000,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$100,000 CDN (\$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 \$0.10 CDN up to April 24, 2013 and then at a price of \$0.20 CDN 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	\$0.03 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%

The Company determined the amount relating to the warrants in the unit issuance to be \$28,052 (Note 10(b)).

These warrants are not in the Company's functional currency (Note 10(b)).

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9. CAPITAL STOCK (Cont'd)

- (c) On June 19, 2012, the Company issued 3,250,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$162,500 CDN (\$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 \$0.10 CDN up to June 19, 2013 and then at a price of \$0.20 CDN 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	\$0.05 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk free interest rate	1.05%
Expected life	2.0 years
Expected volatility (based on historical prices)	294%

The Company determined the amount relating to the warrants in the unit issuance to be \$74,117 (Note 10(b)).

These warrants are not in the Company's functional currency (Note 10(b)).

Share issue costs of \$16,037 are deducted from the gross proceeds received from these unit issuances.

10. 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.

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

	2012		2011	
	Number of Options	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of year	20,000	\$7.00	20,000	\$7.00
Granted	2,600,000	\$0.10	1,150,000	\$0.26
Cancelled	-	\$ -	(1,150,000)	\$0.26
Expired	(20,000)	\$7.00	-	\$ -
Outstanding, end of year	2,600,000	\$0.10	20,000	\$7.00
Exercisable	2,600,000	\$0.10	20,000	\$7.00

The Company had the following stock options outstanding at December 31, 2012:

Number of Options	Exercise Price	Expiry Date
2,600,000	CDN \$0.10	May 1, 2017
2,600,000		

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

- (i) On March 25, 2011, the Company granted 1,150,000 stock options to directors (1,050,000) and a consultant (100,000). These options vested immediately. Each option entitles the holder to purchase one common share at \$0.26 per share at any time on or before March 25, 2016.

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 \$303,330 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Stock price	\$0.26 CDN
Expected dividend yield	Nil
Risk-free interest rate	2.32%
Expected life	5.0 years
Expected volatility (based on historical prices)	255%
Foreign exchange rate	1.0186

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.

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

- (ii) On September 30, 2011, the Company amended the March 25, 2011 stock option grant to cancel 1,150,000 stock options granted to directors and a consultant.
- (iii) On May 1, 2012, the Company granted 2,600,000 stock options to directors (2,350,000) and a consultant (250,000). These options vested 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.

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 CDN
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	1.0164

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.

- (iv) On January 17, 2012, 10,000 options granted to a consultant expired.
- (v) On November 15, 2012, 10,000 options granted to a consultant expired.

(b) Warrants

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

	2012	2011
Balance, beginning of year	\$ 90,464	\$ -
Fair value of warrants issued - September 12, 2011 (Note 9(vi))	-	94,738
Fair value of warrants issued - February 8, 2012 (Note 9(viii))	20,058	-
Fair value of warrants issued - April 24, 2012 (Note 9(viii))	28,052	-
Fair value of warrants issued - June 19, 2012 (Note 9(viii))	74,117	-
Fair value adjustment	(194,191)	(4,274)
Balance, end of year	\$ 18,500	\$ 90,464

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

- (i) At December 31, 2011, the fair value of the 2,800,000 warrants issued on September 12, 2011 was estimated to be \$90,464 (\$92,000 CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	\$0.07 CDN
Expected dividend yield	Nil
Exercise price	\$0.20 - \$0.30 CDN
Risk-free interest rate	0.97%
Expected life	1.707 years
Expected volatility (based on historical prices)	327%

- (ii) At December 31, 2012, the fair value of the 2,800,000 warrants issued on September 12, 2011 was estimated at \$312 (\$310 CDN) using the Black Scholes pricing model with the following assumptions:

Share price	\$0.025 CDN
Expected dividend yield	Nil
Exercise price	\$0.20 - \$0.30 CDN
Risk free interest rate	1.14%
Expected life	0.699 years
Expected volatility (based on historical prices)	124%

- (iii) At December 31, 2012, the fair value of the 1,400,000 warrants issued on February 8, 2012 was estimated at \$2,595 (\$2,670 CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	\$0.025 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk free interest rate	1.14%
Expected life	1.104 years
Expected volatility (based on historical prices)	148%

These warrants were valued at \$20,058 on the date of issuance (Note 9)

- (iv) At December 31, 2012, the fair value of the 2,000,000 warrants issued on April 24, 2012 was estimated at \$5,039 (\$5,610 CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	\$0.025 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk free interest rate	1.14%
Expected life	1.312 years
Expected volatility (based on historical prices)	153%

These warrants were valued at \$28,052 on the date of issuance (Note 9)

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

- (v) At December 31, 2012, the fair value of the 3,250,000 warrants issued on June 19, 2012 was estimated at \$10,554 (\$12,490 CDN) using the Black-Scholes pricing model with the following assumptions:

Share price	\$0.025 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk free interest rate	1.14%
Expected life	1.466 years
Expected volatility (based on historical prices)	162%

These warrants were valued at \$74,117 on the date of issuance (Note 9)

A gain on revaluation of foreign currency warrants of \$194,191 was recognized at December 31, 2012 and is included in the consolidated statement of loss and comprehensive loss.

Number of Warrants	Exercise Price (CDN)	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 CDN 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 CDN 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 CDN per share for a period of 12 months from the closing date and then at a price of \$0.20 CDN per share for a period of 24 months from the closing date.

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2012 was based on the loss attributable to common shareholders of \$392,265 (2011 - \$1,609,486) and the weighted average number of common shares outstanding of 28,353,138 (2011 - 19,918,546).

Diluted loss per share did not include the effect of 2,600,000 stock options and 9,450,000 warrants outstanding as they are anti-dilutive.

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12. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these consolidated financial statements:

	2012	2011
Loss before income taxes	\$ (392,265)	\$ (1,609,486)
Statutory rate	26.50 %	28.25 %
Expected income tax recovery	\$ (103,950)	\$ (454,680)
Loss on settlement of debt	-	212,571
Stock-based compensation	20,823	85,691
Amounts not deductible for tax	(51,460)	(26,764)
Impact on foreign exchange and foreign tax rate differential	(5,044)	45,773
Share issue costs	(4,250)	4,409
Adjustment to CEE and CDE pool balances	(107,450)	-
Adjustment to non-capital losses	(21,654)	-
Change in deferred tax assets not recognized	272,985	133,000
Income tax expense	\$ -	\$ -

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	2012	2011
Deferred tax assets (liabilities)		
Non-capital loss carry forwards	\$ 2,539,000	\$ 2,349,000
Mineral claims and deferred exploration costs	27,000	(53,000)
Share issue costs	7,000	4,000
	2,573,000	2,300,000
Less: Deferred tax assets not recognized	(2,573,000)	(2,300,000)
Net deferred income tax asset	\$ -	\$ -

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12. INCOME TAXES (Cont'd)

(c) Deferred Income Taxes and Losses

The Company has non-capital losses of approximately \$7,944,500 available in Canada and the United States to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2012	\$ 230,800
2013	7,800
2014	79,900
2025	647,500
2026	814,200
2027	2,310,400
2028	2,198,700
2029	189,700
2030	385,700
2031	564,900
2032	514,900
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	\$ 7,944,500
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The potential tax benefit relating to these losses has not been reflected in these consolidated financial statements.

13. 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:

	2012	2011
Share based payment (Note 10) ⁽ⁱ⁾	\$ 71,023	\$ 276,953
Management and director fees ⁽ⁱⁱ⁾	370,863	337,401
	<hr/>	<hr/>
	\$ 441,886	\$ 614,354
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(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.

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13. RELATED PARTY TRANSACTIONS (Cont'd)

Other related party balances are listed below:

- (a) Included in accounts payable and accrued liabilities is approximately \$439,505 (2011 - \$187,872) of amounts owing to directors of the Company for management and director fees.
- (b) Included in loss on debt settlement is \$Nil (2011 - \$84,169) relating to 2,028,196 shares issued to former and current members of management to settlement management and directors fees payable and the SBSL assignment payable (Note 8).

14. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2012

15. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities. In particular market risk (composed of currency risk), liquidity risk, fair value risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

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15. FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Market Risk

(i) Currency risk

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at December 31, 2012 the Company is exposed to currency risk through the following financial assets and liabilities denoted in Canadian dollars:

	2012	2011
Cash	\$ 2,276	\$ 41,885
Accounts payable and accrued liabilities	\$ 521,239	\$ 272,740

The above balances were translated into US dollars at the year-end rate of \$1.0051 (2011 - \$0.9833) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2012, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately \$26,000.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2012, the Company has current liabilities of \$643,303 (2011 - \$388,667) due within 12 months and has cash of \$16,273 (2011 - \$76,059) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

(c) Fair Value Risk

Fair value represents the amounts at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods.

The carrying values of reclamation bonds, accounts payable and accrued liabilities and restoration liabilities approximate fair values due to the relatively short term maturities of these instruments.

(d) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

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16. COMMITMENTS

The Company is committed under lease agreements to the payment of amounts totaling \$4,034 in 2013.

17. 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 and an appeal hearing was held in December, 2012. On April 17, 2013, the United States Court of Appeals for the Fifth Circuit issued its opinion affirming the judgement in the court below in favour of all defendants. While it is possible the appellants could take further action, the Company has not been informed of such action.

18. SUBSEQUENT EVENT

On February 20, 2013 a non-brokered private placement financing totaling \$100,000 CDN was completed through the issuance of units priced at \$0.05 CDN per unit. Each unit was comprised of one common share and one warrant to purchase an additional common share at \$0.10 CDN during the first year following the closing of the placement and at \$0.20 CDN during the second year following the closing of the placement.