

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

**To the Shareholders of
Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)**

We have audited the accompanying consolidated financial statements of Montana Gold Mining Company Inc. and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010 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 subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 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 27, 2012

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Financial Position
(Expressed in United States Dollars)
As at

	December 31, 2011	December 31, 2010 (Note 19)	January 1, 2010 (Note 19)
Assets			
Current			
Cash	\$ 76,059	\$ 170,436	\$ 19,060
Prepays	6,232	-	-
	82,291	170,436	19,060
Equipment (Note 4)	-	-	19,893
Mining claims and deferred exploration expenditures (Note 5)	303,892	141,752	145,150
Reclamation bonds (Note 8)	63,178	83,679	78,288
	\$ 449,361	\$ 395,867	\$ 262,391
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 6)	\$ 388,667	\$ 638,720	\$ 340,902
Promissory notes payable (Note 7)	-	196,053	-
	388,667	834,773	340,902
Restoration liabilities (Note 8)	22,000	45,501	40,110
Deposit on sale of mining claims (Note 5)	-	-	66,605
Warrants denominated in a foreign currency (Note 11)	90,464	-	-
	501,131	880,274	447,617
Shareholders' Deficiency			
Capital stock (Note 10)	7,459,856	5,721,063	5,632,512
Contributed surplus (Note 12)	1,424,034	1,120,704	1,120,704
Deficit	(8,935,660)	(7,326,174)	(6,938,442)
	(51,770)	(484,407)	(185,226)
	\$ 449,361	\$ 395,867	\$ 262,391

Nature of Operations and Going Concern (Note 1)
Litigation (Note 18)
Subsequent events (Note 20)

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

 "Eric Plexman"
Director (Signed)

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars)
Years Ended December 31, 2011 and 2010

	2011	2010
		(Note 19)
Expenses		
Office and administrative costs	\$ 383,303	\$ 219,592
Professional fees	173,677	83,884
Write-off of deferred exploration expenditures (Note 5)	-	57,034
Reclamation work (Note 8)	4,362	-
Stock-based compensation (Note 11)	303,330	-
Amortization	-	3,316
	864,672	363,826
Other income (expense)		
Loss (gain) on foreign exchange	(3,375)	17,302
Gain on revaluation of foreign currency warrants (Note 11)	(4,274)	-
Loss on debt settlement (Note 9)	752,463	6,604
	744,814	23,906
Net loss and comprehensive loss	\$ (1,609,486)	\$ (387,732)

Earnings (loss) per share (Note 13)

Basic and diluted	\$ (0.08)	\$ (0.09)
-------------------	-----------	-----------

Weighted average number of common shares outstanding (Note 13)

Basic and diluted	19,918,546	4,308,282
-------------------	------------	-----------

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Changes in Equity
(Expressed in United States Dollars)
Years Ended December 31, 2011 and 2010

	Number of Shares	Capital Stock	Contributed Surplus	Net loss	Total
	(Note 10)		(Note 12)		
Balance, January 1, 2010 (Note 19)	4,249,104	\$ 5,632,512	\$ 1,120,704	\$ (6,938,442)	\$ (185,226)
Net loss and comprehensive loss	-	-	-	(387,732)	(387,732)
Shares issued for promissory note	1,800,000	88,551	-	-	88,551
Balance, December 31, 2010 (Note 19)	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)

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2011 and 2010

	2011	2010 (Note 19)
Cash provided by (used in)		
Operations		
Net loss	\$ (1,609,486)	\$ (387,732)
Items not affecting cash		
Amortization	-	3,316
Write-off of deferred exploration expenditures	-	57,034
Loss on debt settlement	752,463	6,604
Gain on revaluation of foreign currency warrants	(4,274)	-
Release of restoration liability	(20,501)	-
Stock based compensation	303,330	-
	(578,468)	(320,778)
Net changes in non-cash working capital		
Accounts payable and accrued liabilities	271,683	307,790
Prepaid expenses	(6,232)	-
	(313,017)	(12,988)
Investing		
Mining claims and deferred exploration expenditures	(141,814)	(170,354)
Reclamation bonds	20,501	(5,391)
Deposit on sale of mining claims	-	(66,605)
Restoration liability	(3,000)	-
Proceeds from sale of mining claims	-	122,109
	(124,313)	(120,241)
Financing		
Proceeds from share issuances, net	272,704	-
Proceeds from promissory note issuances	70,249	284,605
	342,953	284,605
Net change in cash during the year	(94,377)	151,376
Cash, beginning of year	170,436	19,060
Cash, end of year	\$ 76,059	\$ 170,436

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

1. NATURE OF OPERATIONS AND GOING CONCERN

Montana Gold Mining Company Inc. ("the Company" or "Montana") was incorporated under the Canada Business Corporations Act and 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 12-152 Albert Street, London, Ontario, N6A 1M1.

While these consolidated financial statement 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, 2011, the Company incurred a loss of \$1,609,486 (2010 - \$387,732) and, as of that date, the Company had accumulated a deficit of \$8,935,660 (December 31, 2010 - \$7,326,174) (January 1, 2010 - \$6,938,442), a working capital deficiency of \$306,376 (December 31, 2010 - \$664,337) (January 1, 2010 - \$321,842) and negative cash flows from operations of \$313,017 (2010 - \$12,988). 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 18), 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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

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"). In 2010, the Handbook of the Canadian Institute of Chartered Accountants was revised to incorporate IFRS and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in Note 19, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position at January 1, 2010 throughout all periods presented as if these policies had always been in effect. An explanation of how the transition to IFRS has affected the consolidated reported financial position, financial performance and cash flows of the Company is provided in Note 19.

The consolidated financial statements of the Company were approved by the Board of Directors on April 27, 2012.

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 and subsidiary'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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Measurement (Cont'd)

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, the value attributed to warrants on unit financings and provisions for legal claims.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Gold Reef of Nevada, Inc. (United States). The financial statements of the subsidiary 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 subsidiary 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.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

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, restoration liabilities and promissory notes payable. 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
Promissory notes payable	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 income statement.

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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Equipment

Equipment is stated at cost less accumulated amortization. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment

Expenditures incurred to replace a component of an item of equipment that is accounted for separately are capitalized. Amortization of corporate equipment and equipment used in the exploration and evaluation phase is recorded using the declining balance method, with management reviewing the useful lives of property and equipment at each statement of financial position reporting date to verify the asset is being amortized over a period equivalent to the useful life of the asset.

The vehicle previously held by the Company was amortized at 20% per annum on a declining basis.

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.

Mining claims and deferred exploration expenditures, including costs of acquiring licenses, are capitalized as mining claims and deferred exploration expenditure assets 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 expenditures are initially capitalized as intangible deferred exploration expenditure 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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining Claims and Deferred Exploration Expenditures (Cont'd)

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.

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.

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 balance sheet 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 income statement.

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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

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 is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the number of options that are expected to vest. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees 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 compensation is measured at the fair value of goods or services received.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income/Loss Per Share

The Company presents basic and diluted income/loss per share data for its common shares, calculated by dividing the income/loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss 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/loss per share does not adjust the income/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.

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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 profit or loss.

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

Warrants that are issued as compensation are not subsequently revalued.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2011 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (a) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. 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.
- (b) IFRS 10 Consolidated Financial Statements 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. Earlier application is permitted.
- (c) IFRS 11 Joint Arrangements 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. Earlier application is permitted.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

3. RECENT ACCOUNTING PRONOUNCEMENTS(Cont'd)

- (d) IFRS 12 Disclosure of Interests in Other Entities 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. Earlier application is permitted.
- (e) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (f) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. 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.

4. EQUIPMENT

As at January 1, 2010 (Note 19)

	Cost	Accumulated Amortization	Net
Vehicles	\$ 34,536	\$ 14,643	\$ 19,893

As part of a debt settlement (Note 9) in 2010, the Company transferred its vehicle with a net book value of \$16,578 to an arm's length consultant. As a result the Company no longer has any equipment.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

5. MINING CLAIMS AND DEFERRED EXPLORATION COSTS

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

	January 1, 2010 (Note 19)	Additions	Proceeds from Sale of Mining Claims	Write-offs	December 31, 2010 (Note 19)
Rimrock Claims, NV ^(a)	\$ 145,150	\$ 33,993	\$ 122,109	\$ 57,034	\$ -
Silver Bell St. Lawrence Claims, MT ^(b)	-	139,512	-	-	139,512
Golden Trail Claims, NV ^(c)	-	2,240	-	-	2,240
	\$ 145,150	\$ 175,745	\$ 122,109	\$ 57,034	\$ 141,752

(a) Rimrock

On August 15, 2010, the Company sold, transferred and assigned 100% unlimited interest in the Rimrock claims and property under sublease with Newmont USA Limited for \$122,109 (\$130,000 CDN) plus a 2% net smelter royalty. A deposit of \$66,605 was received in 2009 relating to the sale of these claims. The purchaser is a private corporation whose management is arm's length to the Company. As a result of the sale, the Company wrote down the remaining carrying value of this property in the amount of \$57,034 in 2010.

As a result of the Company selling its Rimrock claims the Company terminated its sublease agreement with Newmont USA Limited.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

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

(b) Silver Bell St. Lawrence

On August 1, 2010 an arm's length party and Silver Bell St. Lawrence LLC ("SBSL") entered into an agreement for the exploration and development of the mineral potential of the Silver Bell St. Lawrence mining claims in Madison County, Montana. SBSL contributed 9 patented lode claims (the "SBSL Claims") while the arm's length party will fund a work program towards the exploration and development of the property to be funded by the arm's length party or by a corporation that the arm's length party designates, in the amount of \$250,000 (the "Agreement"). All profits and other allocations from the Agreement shall be allocated 51% to the arm's length party and 49% to SBSL. On August 2, 2010, the arm's length party assigned 100% of its interest in the Agreement to the Company. As a result of the assignment by the arm's length party, the Company is required to pay the arm's length party \$100,000 CDN. This payment was made to the arm's length party in the form of shares on January 26, 2011 (Note 10).

The Agreement required a one time payment amount of \$37,500 which was paid to SBSL on August 16, 2010 by the Company. After receipt of this payment, all additional funds will go to the exploration and development of the properties. The work program expenditures in the amount of \$250,000 must be completed by February 28, 2012, otherwise the Company will forfeit their 51% interest in the agreement with SBSL.

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 ("NSR") 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 (Note 10). 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. A program of geological mapping, geochemical and geophysical surveying is presently underway.

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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

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

(c) Golden Trail

As at December 31, 2011, the Company holds 16 (December 31, 2010 and January 1, 2010 - 16) claims in the Elko County region of Nevada.

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.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010 (Note 19)	January 1, 2010 (Note 19)
Trade payables	\$ 162,938	\$ 339,354	\$ 315,372
Accrued liabilities:			
Management and director fees	187,872	157,345	-
Audit and accounting	37,857	41,481	25,530
Silver Bell St. Lawrence assignment (Note 5)	-	100,540	-
	\$ 388,667	\$ 638,720	\$ 340,902

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

7. PROMISSORY NOTES PAYABLE

During 2011 and 2010, the Company received Canadian funds pursuant to the issuance of promissory notes to arm's length individuals.

All promissory notes were settled as of December 31, 2011. The following is a list of the promissory notes activity during 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
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 10).

The following is a list of the promissory notes payable as of December 31, 2010 (Note 19):

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
Total promissory notes	195,000
Add: foreign exchange	1,053
Total Promissory Notes in United States Dollars	\$ 196,053

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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

8. RESTORATION LIABILITIES

As at December 31, 2011, management estimated site restoration costs relating to exploration work to completed to date on the Rimrock property to be \$22,000 (December 31, 2010 and January 1, 2010 - \$45,501) 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 \$25,500 (December 31, 2010 and January 1, 2010 - \$45,501). The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration. During the year 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 totalling \$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 \$38,178 (December 31, 2010 and January 1, 2010 - \$38,178) for an exploration program on the Golden Trail property for which the site restoration work has been performed. The amount of this bond may be released in full or in part once the approval of the restoration work has been approved by the BLM. 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. During the year, the Company paid \$24,863 relating to reclamation work on the Golden Trail property which has been expensed to reclamation work.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

9. SETTLEMENT OF DEBT

- (i) On November 2, 2010, the Company approved the settlement of amounts owing to an arm's-length third party for geological services and expenses in exchange for the company-owned vehicle. This debt settlement resulted in a loss in the amount of \$6,604 in the year ended December 31, 2010 (Note 4).
- (ii) 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 10). 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 10), has been netted in the loss on debt settlement in the consolidated statement of loss and comprehensive loss.

The aggregate loss on debt settlement is \$752,463.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

10. CAPITAL STOCK

- (a) Authorized
 Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
Balance, December 31, 2009 (Note 19) ⁽ⁱ⁾	4,249,104	\$ 5,632,512
Shares issued for promissory note settlement ⁽ⁱⁱ⁾	1,800,000	88,551
Balance, December 31, 2010 (Note 19)	6,049,104	\$ 5,721,063
Opening balance adjustment	(7)	-
Shares issued for promissory note settlements ⁽ⁱⁱⁱ⁾	5,300,000	703,493
Shares issued pursuant to Silver Bell St. Lawrence assignment agreements ^(iv and ix)	2,200,000	422,206
Shares issued for management and director fee settlements ^(v)	4,041,530	234,533
Shares issued for legal fee settlements ^(vi)	3,390,380	170,434
Units issued for cash ^(vii and viii)	3,000,000	302,865
Allocated to warrants ^(vii)	-	(94,738)
Balance, December 31, 2011	23,981,007	\$ 7,459,856

- (i) On November 3, 2010 the Company consolidated the issued and outstanding common shares in the capital of the Corporation on a one for ten basis, which resulted in each pre consolidation common share being consolidated into one tenth of one common share.
- (ii) On December 20, 2010, the Company issued 1,800,000 common shares at \$0.05 CDN per share for net proceeds of \$88,551 (\$90,000 CDN). The proceeds were applied as debt settlement for a promissory note issued on September 1, 2010.
- (iii) 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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

10. CAPITAL STOCK (Cont'd)

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.

- (iv) 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 5) 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.

- (v) On January 3, 2011, the Company issued 2,980,000 shares with an ascribed value of \$0.05CDN 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.

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

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

10. CAPITAL STOCK (Cont'd)

- (vii) 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.

- (viii) 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 incurred 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%

Using the relative fair value approach, the Company determined the amount relating to the warrants in the unit issuance to be \$94,738 (Note 11) which includes share issuance cost of \$6,337.

These warrants are not in the Company's functional currency (see Note 11).

- (ix) 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 5). The previous SBSL agreement was terminated.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

11. 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.

	2011		2010	
	Number of Options	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of year	20,000	\$7.00	65,000	\$5.45
Granted	1,150,000	\$0.26	-	\$-
Cancelled	(1,150,000)	\$0.26	-	\$-
Forfeited	-	\$-	(45,000)	\$4.76
Outstanding, end of year	20,000	\$7.00	20,000	\$7.00
Exercisable	20,000	\$7.00	20,000	\$7.00

The Company had the following stock options outstanding at December 31, 2011:

Number of Options	Exercise Price	Expiry Date
10,000	CDN \$9.10	January 17, 2012
10,000	CDN \$4.90	November 15, 2012
20,000		

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

11. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

- (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 vest 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.

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:

Share 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%

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.

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.

(b) Warrants

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

	December 31,	December 31,
	2011	2010
		(Note 19)
Balance, beginning of year	\$ -	\$ -
Warrants issued (Note 10)	94,738	-
Fair value adjustment	(4,274)	-
Balance, end of period	\$ 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 consolidated statement of financial position and are fair valued at each period end using the Black-Scholes option pricing model.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

11. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

At December 31, 2011, the fair value of these warrants of \$90,464 was estimated using the Black-Scholes pricing model, using the following weighted average 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%

A gain on revaluation of foreign currency warrants of \$4,274 was recognized at December 31, 2011 and is included in the consolidated statement of loss and comprehensive loss.

The Company had the following warrants outstanding at December 31, 2011:

Number of Warrants	Exercise Price (CDN)	Expiry Date
2,800,000 ⁽ⁱ⁾	\$0.20	September 12, 2012
	\$0.30	September 12, 2013

(i) Each warrant entitles the holder to purchase one common share at a price of \$0.20 CDN per share up to September 12, 2012 and then at a price of \$0.30 CDN per share up to September 12, 2013.

12. 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:

	December 31,	December 31,
	2011	2010
		(Note 19)
Balance, beginning of year	\$ 1,120,704	\$ 1,120,704
Stock-based compensation expense (Note 11)	303,330	-
Balance, end of year	\$ 1,424,034	\$ 1,120,704

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

13. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2011 was based on the loss attributable to common shareholders of \$1,609,486 (2010 - \$387,732) and the weighted average number of common shares outstanding of 19,918,546 (2010 - 4,308,282).

Diluted loss per share did not include the effect of 20,000 stock options and 2,800,000 warrants as they are anti-dilutive.

14. 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:

	December 31,	December 31
	2011	2010
		(Note 19)
Loss before income taxes	\$ (1,609,486)	\$ (387,732)
Statutory rate	28.25 %	31.00 %
Expected income tax recovery	\$ (454,680)	\$ (120,197)
Loss on settlement of debt	212,571	-
Stock-based compensation	85,691	-
Amounts not deductible for tax	(1,208)	-
Impact on foreign exchange and foreign tax rate differential	45,773	25,197
Change in deferred tax assets not recognized	133,000	95,000
Share issue costs	4,409	-
Warrants denominated in a foreign currency	(25,556)	-
Income tax expense	\$ -	\$ -

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

14. INCOME TAXES (Cont'd)

(b) Deferred Income Taxes

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

	December 31, 2011	December 31, 2010	January 1, 2010
		(Note 19)	(Note 19)
Deferred tax assets (liabilities)			
Non-capital loss carry forwards	\$ 2,349,000	\$ 2,179,000	\$ 2,088,000
Warrants denominated in a foreign currency	23,000	-	-
Mineral claims and deferred exploration costs	(76,000)	(48,000)	(49,000)
Capital assets	-	36,000	33,000
Share issue costs	4,000	-	-
	2,300,000	2,167,000	2,072,000
Less: Deferred tax assets not recognized	(2,300,000)	(2,167,000)	(2,072,000)
Net deferred income tax asset	\$ -	\$ -	\$ -

(c) Future Income Taxes and Losses

The Company has non-capital losses of approximately \$7,314,200 available in Canada and the United States to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2024	\$ 223,100
2025	594,600
2026	805,900
2027	2,456,500
2028	2,114,100
2029	59,800
2030	359,800
2031	700,400
	\$ 7,314,200

The potential tax benefit relating to these losses has not been reflected in these consolidated financial statements.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

15. 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:

	December 31,	December 31,
	2011	2010
		(Note 19)
Share based payment (Note 11) ⁽ⁱ⁾	\$ 276,953	\$ -
Management and director fees ⁽ⁱⁱ⁾	337,401	182,945
	\$ 614,354	\$ 182,945

(i) Fair market value of incentive 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 \$187,872 (December 31, 2010 - \$157,345) (January 1, 2010 - \$Nil) of amounts owing to directors of the Company for management and director fees.

Included in accounts payable and accrued liabilities is \$Nil (December 31, 2010 - \$169,520) (January 1, 2010 - \$152,020) of amounts owing to a former director for legal fees.

(b) Included in loss on debt settlement is \$84,169 (2010 - \$Nil) 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 9(ii)).

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

16. 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, 2010.

17. 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 reviewed 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.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

17. 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, 2011 the Company is exposed to currency risk through the following financial assets and liabilities denoted in Canadian dollars:

	December 31 2011	December 31, 2010 (Note 19)	January 1, 2010 (Note 19)
Cash	\$ 41,885	\$ 167,672	\$ 5,163
Accounts payable and accrued liabilities and promissory notes payable	\$ 272,740	\$ 715,640	\$ 222,184

The above balances were translated into US dollars at the year end rate of \$0.9833 (December 31, 2010 - \$1.0054) (January 1, 2010 - \$0.9515) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2011, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in a increase/decrease in net loss of approximately \$11,000.

(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, 2011, the Company has current liabilities of \$388,667 (December 31, 2010 - \$834,773) (January 1, 2010 - \$340,902) due within 12 months and has cash of \$76,059 (December 31, 2010 - \$170,436) (January 1, 2010 - \$19,060) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

17. FINANCIAL RISK MANAGEMENT (Cont'd)

(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 cash, reclamation bonds, accounts payable and accrued liabilities, promissory notes payable, 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.

18. 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. Target Strike Inc, 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 direct contradiction of the agreement between the parties involved. 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 of the 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.

19. TRANSITION TO IFRS

As stated in Significant Accounting Policies Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The policies set out in the Significant Accounting Policies section have been applied in preparing the consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

19. TRANSITION TO IFRS (Cont'd)

First-time Adoption of IFRS

Under IFRS 1, IFRS has been applied retrospectively at the date of transition to the balance sheet and the statement of loss and comprehensive loss, changes in equity and cash flows with all adjustment to assets and liabilities as stated under Canadian GAAP taken to retained earnings, except where certain exemptions and elections were applied. The primary exemptions used by the Company are:

Business Combinations - IFRS 3 ("Business Combinations"), has not been applied retrospectively to past business combinations. Accordingly, the Company did not restate business combinations that took place prior to January 1, 2010.

Share Based Payment. The Company has elected to to apply IFRS 2 ("Share-based Payment") retrospectively in respect of options granted and vested prior to January 1, 2010.

Fair Value of Revaluation as Deemed Costs - IFRS 1 allows the Company to measure certain assets of property, plant and equipment at fair value at the Transition Date or revalue amounts previously determined under GAAP. The Company has elected to use the carrying value as determined under IFRS as the deemed cost as at January 1, 2010.

Decommissioning Liabilities - IFRS 1 would allow the Company to measure decommissioning liabilities as at the transition date in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and recognize directly in deficit the difference between that amount and the carrying amount of those liabilities at the date of transition determined under Canadian GAAP. The Company has elected to apply this exemption, and accordingly, did not have any difference upon transition.

In addition below are the changes in accounting policies:

Expenditures on Exploration and Evaluation Projects

The Company has elected to continue to capitalize exploration costs.

Impairment of Exploration and Evaluation Projects

In the year ended December 31, 2010, the Company recorded a write down of its Rimrock Property in the amount of \$57,034 due to a change in recoverable value at that time. Under IFRS, reversals of write downs are permitted and required where the recoverable value of the project is supported. As of December 31, 2011, the Company has no information that would lead it to reverse part or all of the previous write down on the Rimrock Property.

Estimates

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
 (Expressed in United States Dollars)
December 31, 2011 and 2010

19. TRANSITION TO IFRS (Cont'd)

Reconciliations from Canadian GAAP to IFRS

The adoption of IFRS had no impact on the Company's consolidated financial position, financial performance and cash flows.

Comparative Consolidated Financial Statements

The Company's adoption of IFRS had no impact on the consolidated balance sheets as at January 1, 2010 and December 31, 2010, nor on the statement of cash flows for the year ended December 31, 2010.

Reconciliation of Comprehensive Loss and Equity

Reconciliation of net loss and comprehensive loss	December 31, 2010	
Net loss and comprehensive loss under Canadian GAAP	\$	(387,732)
IFRS adjustments to net loss and comprehensive loss		-
Net loss and comprehensive loss under IFRS	\$	(387,732)

Reconciliation of shareholders' deficiency	December 31, 2010	January 1, 2010
Total shareholders' equity under Canadian GAAP	\$ (484,407)	\$ (185,226)
IFRS adjustments to shareholders' equity	-	-
Total shareholders' equity under IFRS	\$ (484,407)	\$ (185,226)

20. SUBSEQUENT EVENTS

- (a) On January 17, 2012, 10,000 stock options with an exercise price of \$9.10 CDN issued to a consultant expired.
- (b) On February 8, 2012 the Company issued 1,400,000 units with an ascribed value of \$0.05 CDN per share for net proceeds of \$70,539 (\$70,000 CDN). 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.
- (c) On February 24, 2012, the Company paid the final \$85,000 option payment for the Silver Bell St. Lawrence claims (see Note 5).
- (d) On March 2, 2012 the Company granted 2,600,000 options to officers and directors. These options vested immediately and expire on March 2, 2017 and are exercisable at \$0.10 CDN.

Montana Gold Mining Company Inc.
(formerly Gold Reef International, Inc.)
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2011 and 2010

20. SUBSEQUENT EVENTS (Cont'd)

- (e) On April 24, 2012, the Company issued 2,000,000 units with an ascribed value of \$0.05 CDN per unit for gross proceeds of \$101,210 (\$100,000 CDN). Each unit consists of one Common share and one share purchase warrant. 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 Company received funds for this issue during the months of February, March and April, 2012.