TREASURY METALS

INCORPORATED

(An exploration stage company)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2012 AND 2011

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Treasury Metals Inc.

We have audited the accompanying financial statements of Treasury Metals Inc. which comprise the balance sheets as at December 31, 2012 and December 31, 2011 and the statements of operations, other comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Treasury Metals Inc. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
March 21, 2013
Toronto, Ontario

TREASURY METALS INC.

(An exploration stage company)
BALANCE SHEETS
(EXPRESSED IN CANADIAN DOLLARS)

	December 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents (Note 4)	$ 2,191,829	$ 3,593,484
Accounts receivable and prepaid expenses (Note 5)	540,133	351,685
	2,731,962	3,945,169
Investments (Note 6)	646,874	1,911,084
Property and equipment (Note 7)	2,619,707	768,490
Mineral properties and related deferred costs (Note 8)	48,428,792	42,326,840
	$ 54,427,335	$ 48,951,583
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,133,212	$ 719,933
Due to Laramide Resources Ltd. (Note 13)	63,197	-
Current portion of long-term debt (Note 9)	52,591	32,139
Unrenounced flow-through shares premium	984,375	1,063,372
	2,233,375	1,815,444
Long-term debt (Note 9)	688,023	240,614
Deferred tax liability (Note 15)	2,025,800	-
	4,947,198	2,056,058
Shareholders' Equity		
Capital stock (Note 10)	60,163,577	55,018,689
Contributed surplus	3,239,273	2,510,909
Deficit	(12,728,189)	(10,665,742)
Accumulated other comprehensive income (loss)	(1,194,524)	31,669
	49,480,137	46,895,525
	$ 54,427,335	$ 48,951,583

Commitments and Contractual Obligations (Note 16)
Subsequent Events (Note 17)

SIGNED ON BEHALF OF THE BOARD

(Signed) *"Doug Bache"*
Director

(Signed) *"Marc Henderson"*
Director

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

TREASURY METALS INC.

(An exploration stage company)
STATEMENTS OF OPERATIONS
(EXPRESSED IN CANADIAN DOLLARS)

Years ended December 31,	2012	2011
Revenues		
Royalty income, net (Note 8)	**$ 878,943**	$ 850,955
Gain on sale of investments	**5,731**	135,076
	884,674	986,031
Expenses		
Administrative, office and shareholder services	**$ 1,097,912**	$ 908,019
Professional fees	**332,877**	212,570
Salary and benefits	**228,288**	314,018
Stock-based compensation (Note 12)	**325,644**	24,672
Amortization	**-**	39,760
Other expenses (Note 8)	**-**	1,664,006
	1,984,721	3,163,045
Loss before income taxes	**(1,100,047)**	(2,177,014)
Income taxes (Note 15)	**(962,400)**	288,290
Net loss	**$ (2,062,447)**	$(1,888,724)
Loss per share - basic and diluted	**$ (0.04)**	$ (0.04)
Weighted average number of shares outstanding	**55,499,761**	47,625,391

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

TREASURY METALS INC.

(An exploration stage company)
STATEMENTS OF OTHER COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

Years ended December 31,		2012		2011
Net loss	**$**	**(2,062,447)**	$	(1,888,724)
Other comprehensive loss				
Unrealized loss on available for sale investments, net of taxes		**(1,220,462)**		(286,789)
Reclassification of realized gain on available for sale investments to income, net of taxes		**(5,731)**		(135,076)
		(1,226,193)		(421,865)
Comprehensive loss	**$**	**(3,288,640)**	$	(2,310,589)

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

TREASURY METALS INC.

(An exploration stage company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	**43,667,806**	**$ 45,833,775**	**$ 2,549,736**	**$ (8,777,018)**	**$ 453,534**	**$ 40,060,027**
Flow through private placement-March	3,125,000	5,000,000	-	-	-	5,000,000
Flow through private placement-December	3,521,073	4,049,234	-	-	-	4,049,234
Proceeds from the exercise of warrants	357,250	291,325	-	-	-	291,325
Proceeds from the exercise of options	788,000	286,400	-	-	-	286,400
Options issued for commission on private placement	-	(231,554)	231,554	-	-	-
Share issue costs	-	(839,832)	-	-	-	(839,832)
Unrenounced flow-through shares premium(Note 10)	-	(1,063,372)	-	-	-	(1,063,372)
Fair value of contributed surplus transferred on exercise of warrants and options	-	295,053	(295,053)	-	-	-
Commission on private placement non-cash	16,472	9,060	-	-	-	9,060
Issued with respect to other expenses (Note 8)	1,000,000	1,330,000	-	-	-	1,330,000
Issued with respect to properties allocations	70,793	58,600	-	-	-	58,600
Stock-based compensation	-	-	24,672	-	-	24,672
Net loss for the year	-	-	-	(1,888,724)	-	(1,888,724)
Other comprehensive loss	-	-	-	-	(421,865)	(421,865)
Balance, December 31, 2011	**52,546,394**	**$ 55,018,689**	**$ 2,510,909**	**$ (10,665,742)**	**$ 31,669**	**$ 46,895,525**

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

TREASURY METALS INC.

(An exploration stage company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY(Continued)

(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	**52,546,394**	**$ 55,018,689**	**$ 2,510,909**	**$ (10,665,742)**	**$ 31,669**	**$ 46,895,525**
Private placement-September	2,000,000	1,500,000	-	-	-	1,500,000
Flow through private placement-September	5,625,000	4,500,000	-	-	-	4,500,000
Proceeds from the exercise of warrants	596,768	418,112	-	-	-	418,112
Proceeds from the exercise of options	435,000	130,500	-	-	-	130,500
Fair value of contributed surplus transferred on exercise of warrants and options	-	230,099	(230,099)	-	-	-
Share issue costs	-	(463,563)	-	-	-	(463,563)
Unrenounced flow-through shares premium (Note 10)	-	(984,375)	-	-	-	(984,375)
Issuance of warrants (Note 11)	-	(250,000)	250,000	-	-	-
Commission on private placement non-cash (Note 11)	-	(145,485)	145,485	-	-	-
Issued with respect to properties allocations	261,912	209,600	-	-	-	209,600
Stock-based compensation(Note 12)	-	-	562,978	-	-	562,978
Net loss for the year	-	-	-	(2,062,447)	-	(2,062,447)
Other comprehensive loss	-	-	-	-	(1,226,193)	(1,226,193)
Balance, December 31, 2012	**61,465,074**	**$ 60,163,577**	**$ 3,239,273**	**$ (12,728,189)**	**$ (1,194,524)**	**$ 49,480,137**

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

TREASURY METALS INC.

(An exploration stage company)

STATEMENTS OF CASH FLOWS

(EXPRESSED IN CANADIAN DOLLARS)

Years ended December 31,	2012	2011
Cash and cash equivalents (used in) provided by:		
Operating Activities		
Net loss	**$ (2,062,447)**	$ (1,888,724)
Adjustments for:		
Gain on sale of investments	**(5,731)**	(135,076)
Deferred income tax	**962,400**	(288,290)
Stock-based compensation	**325,644**	24,672
Amortization	**-**	39,760
Other expenses(Note 8)	**-**	1,330,000
	(780,134)	(917,658)
Net change in non-cash working capital items:		
Accounts receivable and prepaid expenses	**(188,447)**	(104,227)
Accounts payable and accrued liabilities	**(109,978)**	339,934
	(1,078,559)	(681,951)
Financing Activities		
Private placement, net of issue costs	**5,536,437**	8,218,462
Warrants and options exercised	**548,612**	577,725
Due to Laramide Resources Ltd.	**63,197**	(2,933)
Payments made on long-term debt	**(32,139)**	(27,975)
	6,116,107	8,765,279
Investing Activities		
Proceeds on sale of investments	**43,749**	469,345
Acquisition of property and equipment	**(1,248,753)**	(381,745)
Acquisition of mineral properties and related deferred costs	**(5,234,199)**	(7,498,190)
	(6,439,203)	(7,410,590)
Change in cash and cash equivalents	**(1,401,655)**	672,738
Cash and cash equivalents, beginning of the year	**3,593,484**	2,920,746
Cash and cash equivalents, end of the year	**$ 2,191,829**	$ 3,593,484

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

TREASURY METALS INC.

(An exploration stage company)
STATEMENTS OF CASH FLOWS - (Continued)
(EXPRESSED IN CANADIAN DOLLARS)

Years ended December 31,	2012	2011
Supplementary cash flow information		
Changes in non cash investing activities:		
Shares issued for purchase of mineral properties and property and equipment	**$ 209,600**	$ 58,600
Options / Warrants issued for commission on private placement	**$ 145,485**	$ 231,554
Shares issued for commission on private placement	**$ -**	$ 9,060
Stock-based compensation capitalized to mineral properties	**$ 237,334**	$ -
Amortization capitalized to mineral properties	**$ 67,536**	$ -
Shares issued for other expenses (Note 8)	**$ -**	$ 1,330,000

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

1. NATURE OF OPERATIONS

Treasury Metals Inc. (the "Company" or "Treasury Metals") is incorporated under the laws of Ontario. The mineral properties of Treasury Metals are all located in Canada and are in the exploration stage and, on the basis of information to date, do not yet have economically recoverable reserves. The recoverability of the amounts shown on the balance sheets for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, maintaining beneficial interest in its properties and the underlying mining claims, obtaining the necessary regulatory approvals and permits, the ability to obtain the necessary financing to fulfill its obligations as they arise, the ability to complete the development of the claims, and achieving profitable production or the proceeds from the disposition of the properties. The address of the Company's registered office is 130 King Street West, Suite 3680, Toronto, Ontario, Canada.

On March 21, 2013, the Board of Directors approved the financial statements for the years ended December 31, 2012 and 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation

These financial statements are presented in Canadian dollars which is also the functional currency of the Company.

The financial statements are prepared on the historical cost basis except for certain assets and financial instruments which are measured at their fair value, as explained in the accounting policies set out in this note.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

Cash and Cash Equivalents

The “cash and cash equivalents” category consists of cash in banks, call deposits and other highly liquid investments with initial maturities of three months or less or which are cashable without penalty.

Financial Instruments

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value, with any resultant gain or loss recognized in the statement of operations.

Financial instruments classified as being available for sale are measured at fair value, with any resultant gain or loss being recognized directly under other comprehensive income. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

The fair value of financial instruments classified as held for sale and available for sale is their quoted bid price at the balance sheet dates.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities classified as other financial liabilities 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.

Impairment losses for the different financial assets and liabilities are recognized as follows:

FVTPL financial assets: An impairment loss on a financial asset or financial liability classified as FVTPL is recognized in net income in the period in which it arises.

Available for sale financial assets: When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is transferred to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Held to maturity securities: The recoverable amount of the Company's investments in held to maturity securities and receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). An impairment loss is recognized in net income and through the amortization process.

Effective interest method: The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognized on an effective interest rate basis for debt instruments other than those financial assets at FVTPL.

Property and Equipment

i) Assets owned by the Company

Property and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and amortized separately. Useful life is reviewed at the end of each reporting period.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Assets financed by finance lease contracts, in terms of which the Company assumes substantially all the risks and rewards of ownership, are capitalized at the lower of the present value of future minimum lease payments and fair value and the related debt is recorded in "long-term debt". These assets are depreciated on a straight-line basis over their estimated useful life. Amortization expense on assets acquired under such leases are included in mineral properties and related deferred costs if directly related to mineral properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Subsequent costs

The Company recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

iv) Amortization

Amortization is calculated on a straight-line and declining balance basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives in the current and comparative periods are as follows:

Building	4% Declining balance
Furniture and equipment	20% Declining balance
Vehicles under finance lease	Straight line over five years
Other vehicles	Straight line over five years

Mineral Properties and Related Deferred Costs

The Company defers pre exploration, post exploration and evaluation expenditures until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. Capitalized expenditures include all the costs incurred in exploration and evaluation of potential mineral reserves and resources, such as exploratory drilling and sample testing and the costs of pre feasibility studies. Exploration expenditures are related to the initial search for deposits of minerals with economic value. Evaluation expenditures are related to the detailed economic assessments of identified deposits that are economically viable.

Impairment

The Company continually reviews and evaluates the events or changes in the economic environment that indicates a risk of impairment of assets to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Impairment of the assets is evaluated at the cash generating unit ("CGU") level which is the smallest identifiable group of asset that generates cash inflows, independent of the cash inflows from other assets, as defined by IAS 36 "Impairment of assets". Recoverable amount is defined as the higher of an asset’s fair value (less costs to sell) and its value in use. The active market or a binding sale agreement provides the best evidence for the determination of the fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Provisions

A provision is recognized on the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Taxes

Pursuant to the liability method, deferred taxes are recorded for temporary differences existing at closing date between the tax base value of assets and liabilities and their carrying amount on the balance sheet.

- Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted at year-end. They are reviewed at the end of each year, in line with any changes in applicable tax rates.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact earnings, tax income or loss.
- Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

Revenue

Royalty revenue consists of a 2% to 3% sliding production royalty ("NSR") on gold that is produced at the Cerro Colorado Gold Mine Project in Mexico (Note 8). Revenue is recorded in the period the gold is sold. Other revenues are recognized at the time persuasive evidence of an agreement exists, amount is fixed and determinable, and collectibility is reasonably assured.

Flow-through Shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company.

At the time of issuance of the flow-through shares, the Company applies the residual method to measure the sale of tax deduction to the shareholders and records such amount as "Unrenounced flow-through share premium" on the balance sheet.

When the Company fulfills its obligation to pass on the tax deduction to the shareholders, the amount recorded as unrenounced flow-through share premium is recognized as deferred income taxes in the statement of operations and a deferred tax liability is recognized for the temporary tax difference. If the renouncement is prospective, the obligation is fulfilled when eligible expenditures are incurred. If the renouncement is retrospective, the obligation is fulfilled when the paperwork to renounce is filed.

Stock-based Compensation

The Company offers a share option plan. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured using the Black Scholes option pricing model. Compensation expense is recognized as a charge to net loss or mineral property and related deferred costs over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to capital stock. The contributed surplus resulting from stock-based payment is transferred to capital stock when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For equity settled transactions, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case, the Company measures their value by reference to the fair value of the equity instruments granted.

Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to common share holders of the Company by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

Environment Rehabilitation Provision

The Company's activities could give rise to obligations for environmental rehabilitation which can include facilities dismantling, removal, treatment of waste materials, monitoring, compliance with environmental regulations, security and other site related costs required to perform the rehabilitation work. Any current expenditures regarding the environmental rehabilitation are charged to the cost of the project. Provisions for rehabilitation are periodically adjusted by the Company, when applicable; such adjustments are recorded as a change in the value of the related mineral property.

Accounting Standards Issued but not yet Effective

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods.

IFRS 11 - Joint Arrangements establishes the principles for joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method whereas for a joint operation the venture will be accounted for using the proportionate consolidation method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted

IFRS 12 - Disclosure of Interests in Other Entities 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 adoption is permitted

IFRS 13 - Fair Value Measurement defines fair value, required disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 19 – Employee Benefits amends the existing standard to eliminate options to defer the recognition of gains and losses in defined benefit plans, requires remeasurement of a defined benefit plan's assets and liabilities to be presented in other comprehensive income and increases the disclosure. IFRS 19 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 permits capitalization of stripping costs if all of the three criteria are met: probability of economic benefit, identifiability of ore body and measurability of stripping costs. 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 may represent a change in accounting practice for some Canadian mining entities. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted

The IASB also amended the following standard which is effective as per the date identified.

IAS 1 - Presentation of Financial Statements was amended and requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets. The IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. The IASB has extended the effective date to January 1, 2015 with earlier adoption permitted.

The Company has not early adopted these standards, amendments and interpretations, however it is currently assessing the impact of their application in the financial statements of the Company.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the following items:

Measurement of impairment in Mineral properties and related deferred costs and Investments - Management uses significant judgement in determining whether there is any indication that mineral properties and related deferred costs and investments may be impaired. Management also uses significant judgment in evaluating whether there is objective evidence that the investments classified as available for sale are impaired.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Stock-based compensation and warrants - The Company utilizes the Black Scholes option pricing model to determine the fair values of the stock-based payments and warrants. The Company uses significant judgement in the evaluation of the input variables in the Black Scholes calculation which includes: risk free interest rate, expected stock price volatility, expected life, expected dividend yield and a quoted market price of the Company's shares on the Toronto Stock Exchange.

Deferred income taxes - In assessing the probability of realizing deferred income taxes, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred taxes. The Company reassesses unrecognized income tax at each reporting period.

(EXPRESSED IN CANADIAN DOLLARS)

4. CASH AND CASH EQUIVALENTS

The balances are comprised as follows:

	December 31, 2012	December 31, 2011
Cash	**$ 234,393**	$ 368,484
Preferred investment account	**1,907,436**	-
Cashable GIC	**50,000**	3,225,000
	$ 2,191,829	$ 3,593,484

5. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

The balances are comprised as follows:

	December 31, 2012	December 31, 2011
Harmonized sales tax	**$ 212,188**	$ 75,656
Prepaid expenses and advances	**117,588**	136,557
Royalty receivable	**116,270**	64,877
Other receivable	**94,087**	74,595
	$ 540,133	$ 351,685

6. INVESTMENTS

The Company's investments are carried at fair market value and are comprised of the following:

	Number of Shares	**December 31, 2012**	Number of Shares	December 31, 2011
Vaaldiam Mining Inc. (Formerly Tiomin Resources Inc.)	**-**	**$ -**	169,803	$ 13,584
Goldgroup Mining Inc. (Formerly Sierra Minerals Inc.)	**1,725,000**	**646,874**	1,725,000	1,897,500
		$ 646,874		$ 1,911,084

(EXPRESSED IN CANADIAN DOLLARS)

7. PROPERTY AND EQUIPMENT

Cost	Land	Building	Furniture and equipment	Vehicles	Total
At December 31, 2011	$ 156,815	$ 482,066	$ 45,944	$ 125,107	$ 809,932
Additions	1,299,277	578,996	40,480	-	1,918,753
At December 31, 2012	$1,456,092	$1,061,062	$ 86,424	$ 125,107	$2,728,685
Accumulated amortization					
At December 31, 2011	$ -	$ (14,175)	$ (5,384)	$ (21,883)	$ (41,442)
Amortization for the year	-	(30,296)	(12,219)	(25,021)	(67,536)
At December 31, 2012	$ -	$ (44,471)	$ (17,603)	$ (46,904)	$ (108,978)
Net book value at December 31, 2012	$1,456,092	$1,016,591	$ 68,821	$ 78,203	$2,619,707

Cost	Land	Building	Furniture and equipment	Vehicles	Total
At December 31, 2010	$ 75,565	$ 226,695	$ -	$ 85,963	$ 388,223
Additions	81,250	255,371	45,944	39,144	421,709
At December 31, 2011	$ 156,815	$ 482,066	$ 45,944	$ 125,107	$ 809,932
Accumulated amortization					
At December 31, 2010	$ -	$ -	$ -	$ (1,683)	$ (1,683)
Amortization for the year	-	(14,175)	(5,384)	(20,200)	(39,759)
At December 31, 2011	$ -	$ (14,175)	$ (5,384)	$ (21,883)	$ (41,442)
Net book value at December 31, 2011	$ 156,815	$ 467,891	$ 40,560	$ 103,224	$ 768,490

(EXPRESSED IN CANADIAN DOLLARS)

8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS

As of December 31, 2012 and 2011, accumulated costs with respect to the Company's interest in mineral properties, consisted of the following:

	Balance December 31, 2011	Additions	**Balance December 31, 2012**
Goliath Gold Project	$ 42,034,852	$ 5,749,502	**$ 47,784,354**
Lara Polymetallic Project - BC	185,969	54,573	**240,542**
Goldcliff Property	106,019	297,877	**403,896**
	$ 42,326,840	$ 6,101,952	**$ 48,428,792**

	Balance December 31, 2010	Additions	Balance December 31, 2011
Goliath Gold Project	$ 34,608,116	$ 7,426,736	$ 42,034,852
Lara Polymetallic Project - BC	100,000	85,969	185,969
Goldcliff Property	61,934	44,085	106,019
	$ 34,770,050	$ 7,556,790	$ 42,326,840

Goliath Gold Project

The Goliath Gold Project is located in the Kenora Mining Division in north-western Ontario, 20 km east of the City of Dryden and 325 km northwest of the port City of Thunder Bay.

The Goliath Gold Project consists of 137 contiguous unpatented mining claims (254 units) and 19 patented land parcels. The total area of the project is approximately 4,881 hectares (~49 km^2) covering portions of Hartman and Zealand townships. The project comprises two historic properties which are now : the larger Thunder Lake Property, purchased from Teck Resources (“Teck”) and Corona Gold Corporation (“Corona”) and the Laramide Property, transferred to the Company from Laramide Resources Ltd. ("Laramide"). The project area has been expanded from its original size through additional claim staking and land purchases/options. Certain underlying royalties and payment obligations remain on 14 of the 19 patented land parcels totaling about $103,500 per year.

The Goliath Gold Project comprises three underlying properties: the Laramide Property, Thunder Lake Property and the Brisson Property.

Laramide Property, Ontario

In 2007, the Company acquired from Laramide a 100% interest in certain parcels of land, including surface and mineral rights totaling 411 acres in 3 patented land parcels, located in Zealand Township near Dryden, Ontario (collectively the “Laramide Property”). This interest is subject to a 2.0 - 2.5% NSR retained by the owners.

8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS (Continued)

Thunder Lake Property, Ontario

In 2007, the Company and Laramide finalized and signed an agreement pursuant to which, Treasury Metals purchased 100% of Corona's and Teck's respective interests in the Thunder Lake West, Thunder Lake East and certain adjacent properties in and around Dryden, Ontario (collectively the "Thunder Lake Property").

Brisson Property, Ontario

In December 2009, the Company acquired a 100% interest in certain parcels of land in the District of Kenora. Under the terms of the agreement, the Company made option payments totaling $100,000 and issued common shares of the Company equal to $100,000 based on the market price at the date of issue.

Lara Polymetallic Project, British Columbia

In 2007, the Company acquired from Laramide a 100% interest in and to the Lara Property located in the Victoria Mining Division, near Chemainus on southern Vancouver Island, British Columbia. The Lara Polymetallic Project, of which a portion was formerly owned by Laramide, comprises 80 mineral claims covering approximately 8,684 hectares (~87 km^2).

The Company is committed to a 1.0% net smelter return NSR, held by Argus Metals Corp. (formerly Bluerock Resources Ltd) on 8 of the mineral claims, historically known as the Chemainus claims, located on Vancouver Island.

In 2010, only $5,173 was expended in this project and no significant expenditures in the early future were considered at that time; in addition, in early 2011 the annual mining leases on a significant portion of the property were not renewed. As a consequence, the estimated non-recoverable costs associated with this project were written off in 2010. In the year 2011, the Company renewed the mining leases of the most significant areas of this property and, therefore, it now owns the mining rights on these properties. During the year 2012, $54,573 (2011-$85,969) was expended in this project.

Goldcliff Property

In June 2010, the Company acquired the right to earn a 100% interest in four unpatented mining claims in the District of Kenora ("Kenora mining claims"). Under the terms of the Agreement, the Company is to make option payments totalling $90,500 and issue 80,000 common shares of the Company over a three-year period. These payments are required as follows: $8,500 and 20,000 common shares paid on signing of the agreement (paid), $12,000 and 20,000 common shares on or before June 23, 2011 (paid), $20,000 and 20,000 common shares on or before June 23, 2012 (paid), and $50,000 and 20,000 common shares on or before June 23, 2013. The Kenora mining claims, totalling 12 units and 192 hectares, are subject to a 2% NSR of which 1% can be purchased by the Company for $750,000.

In addition, the Company acquired through staking, 100% ownership in 37 unpatented mining claims that are contiguous with the Kenora mining claims. Some of the staked claims are subject to a one-kilometre area of interest and a 1% NSR (purchasable 100% by the Company for $750,000) as they relate to each of the four Kenora mining claims.

8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS (Continued)

Cerro Colorado Gold Mine, Mexico

In 2007, the Company acquired from Laramide a sliding production royalty, net of withholding tax, based on gold prices and the aggregate production from a mine, less direct selling costs. On the first 100,000 ounces produced, Treasury Metals will receive a 2.0% sliding production royalty if gold prices are below US$350 per ounce and a 2.5% sliding production royalty if gold prices are above US$350 per ounce. Once cumulative production exceeds 100,000 ounces of gold, the royalty rate is 2.5% and escalates to 3.0% if gold prices are above US$350 per ounce.

During the year ended December 31, 2010, the 100,000 ounces of gold cumulative production target was reached and, based on the gold prices, the royalty rate was increased to 3.0%.

Other expenses related to acquisition of mineral properties

During the year ended December 31, 2011, Treasury Metals and Pan American Silver Corp. ("Pan American") entered into an agreement whereby the Company would purchase all the shares of Pan American subsidiaries which hold the Pico Machay Gold Project in Peru. Pursuant to the terms of the agreement, the Company issued 1.0 million non refundable common shares to Pan American with a market value of $1,330,000 at the time of signing the agreement.

In November 2011, the Company announced it will not complete the acquisition of the Pico Machay Gold Project on the terms previously negotiated. As a result, the total cost of $1,664,006, which includes the value of the shares indicated in the previous paragraph, was charged to the statement of operations in the fourth quarter of 2011.

(EXPRESSED IN CANADIAN DOLLARS)

9. LONG-TERM DEBT

	Current Portion	Long Term Portion	Total Debt December 31, 2012
Mortgages (i)	$ 16,925	$ 649,765	$ 666,690
Finance lease payable	35,666	38,258	73,924
	$ 52,591	$ 688,023	$ 740,614

	Current Portion	Long Term Portion	Total Debt December 31, 2011
Mortgages (i)	$ 17,133	$ 166,658	$ 183,791
Finance lease payable	15,006	73,956	88,962
	$ 32,139	$ 240,614	$ 272,753

(i) The mortgages are related to two purchase transactions of lands and buildings located on the Goliath Gold Project properties. A first purchase for a total of $200,000 was made in November 2010 consisting of 120 monthly payments with annual interest rate of prime plus 3% expiring in October 2020. A second transaction for $500,000 was made on October 1, 2012 and consists of quarterly payments of interests until the maturity on October 1, 2014, with annual interest of 4%.

	Total
2013	$ 16,924
2014	518,043
2015	19,236
2016	20,656
2017 and beyond	91,831
Total Mortgages	$ 666,690

The finance lease payable consists of 3 lease agreements for up to 48 monthly payments with annual interest rate of 3.9% and 5.6%, expiring up to August 2014. The details of the debt and the future payments for the leases until August 2014 is as follows:

	Total
Not more than one year	$ 38,896
More than one year and not later than two years	39,632
Total future minimum payments	78,528
Less: amount representing interest	(4,604)
Present value of finance lease payable as at December 31, 2012	$ 73,924

(EXPRESSED IN CANADIAN DOLLARS)

10. CAPITAL STOCK

a) AUTHORIZED

Unlimited common shares

b) ISSUED

COMMON SHARES	Number of Shares	Stated Value
Balance, December 31, 2010	**43,667,806**	**$ 45,833,775**
Flow through private placement-March	3,125,000	5,000,000
Flow through private placement-December	3,521,073	4,049,234
Proceeds from the exercise of warrants	357,250	291,325
Proceeds from the exercise of options	788,000	286,400
Options issued for commission on private placement	-	(231,554)
Share issue costs	-	(839,832)
Unrenounced flow-through shares premium	-	(1,063,372)
Fair value of contributed surplus transferred on exercise of warrants and options	-	295,053
Commission on private placement non-cash	16,472	9,060
Issued with respect to other expenses	1,000,000	1,330,000
Issued with respect to properties allocations (Note 8)	70,793	58,600
Balance, December 31, 2011	**52,546,394**	**$ 55,018,689**
Private placement-September	2,000,000	1,500,000
Flow through private placement-September	5,625,000	4,500,000
Proceeds from the exercise of warrants	596,768	418,112
Proceeds from the exercise of options	435,000	130,500
Fair value of contributed surplus transferred on exercise of warrants and options	-	230,099
Share issue costs	-	(463,563)
Unrenounced flow-through shares premium	-	(984,375)
Issuance of warrants	-	(250,000)
Commission on private placement non-cash	-	(145,485)
Issued with respect to properties allocations (Note 8)	261,912	209,600
Balance, December 31, 2012	**61,465,074**	**$ 60,163,577**

10. CAPITAL STOCK (Continued)

Private Placements

On September 21, 2012, the Company completed a brokered private placement (the "Offering") led by Cannacord Genuity Corp. ("Cannacord") as agent. The Offering consisted of 5,625,000 flow-through common shares (the "Flow-Through Shares") of the Company at a price of $0.80 per Flow-Through Share, and 2,000,000 units (the "Units") at a price of $0.75 per Unit, for aggregate gross proceeds of $4,500,000 and $1,500,000, respectively. Each Unit consists of one common share and one half of one common share purchase warrant of the Company exercisable at $1.00 per share, for a period of 24 months from the closing date. The net proceeds of the financing from Flow-through shares are to be used to incur eligible Canadian Exploration Expenses and flow-through mining expenditures in the gold projects located in the Kenora Mining District of northwestern Ontario, as defined under the Income Tax Act (Canada), that will be renounced in favour of the purchasers. The net proceeds of the financing from the Units will be used in exploration expenses and for general working capital purposes. The Company paid the brokers a cash commission equal to 6% of the gross proceeds of the Offering and issued 457,500 compensation warrants ("Broker Warrants") equal to 6% of the aggregate number of Flow-Through Shares and Units subscribed for. Each Broker Warrant entitles the holder thereof to purchase 1 common share of the Company at a price of $0.80 for a period of 24 months from the closing date.

On March 22, 2011, the Company completed a brokered private placement (the "Offering"), led by Cormark Securities Inc. ("Cormark") as agent. The Offering consisted of 3,125,000 flow-through common shares (the "Flow-Through Shares") of the Company at a price of $1.60 per Flow-Through Share, for aggregate gross proceeds of $5,000,000. The net proceeds of the financing are to be used to incur eligible Canadian Exploration Expenses and flow-through mining expenditures in the gold projects located in the Kenora Mining District of northwestern Ontario, as defined under the Income Tax Act (Canada), that will be renounced in favour of the purchasers with an effective date of no later than December 31, 2011. The Company paid Cormark a cash commission equal to 6% of the gross proceeds of the Offering and issued 187,500 Cormark compensation options ("Compensation Options") equal to 6% of the aggregate number of Flow-Through Shares subscribed for. Each Compensation Option entitles the holder thereof to purchase 1 common share of the Company at a price of $1.60 (subject to adjustment) until March 22, 2013.

On December 6 2011, the Company completed a brokered private placement, led by Cormark and Canaccord Genuity Corp. and including Raymond James Ltd. as agents ("The Agents"). The Offering consisted of 3,521,073 flow-through common shares of the Company at a price of $1.15 per Flow-Through Share, for aggregate gross proceeds of $4,049,234. The net proceeds of the financing will be used to incur eligible Canadian Exploration Expenses and flow-through mining expenditures in the gold projects located in the Kenora Mining District of northwestern Ontario, as defined under the Income Tax Act (Canada), that will be renounced in favour of the purchasers with an effective date of no later than December 31, 2011. The Company paid the Agents a cash commission equal to 6% of the gross proceeds of the Offering and issued 105,632 Agents Compensation Options equal to 3% of the aggregate number of Flow-Through Shares subscribed for under the offering. Each Compensation Option entitles the holders thereof to purchase 1 common share of the Company at a price of $1.15 (subject to adjustment) until December 6, 2013.

10. CAPITAL STOCK (Continued)

Shares Issued with Respect to Property Allocations

Under the terms of the agreement to acquire the Thunder Lake Property, the Company is required to issue common shares of the Company to Corona and Teck to ensure that they maintain their ownership interests in the Company at 10% and 2.27% respectively, until such time that the Company has received $7.5 million in private placement financings. At December 31, 2012 the Company is obliged to issue 250,746 shares under this agreement, to fulfill its obligation on the December 2010 private placements.

Under the terms of the agreements to acquire properties for expansion of the Goliath Gold project area (Note 8), in the year 2012 the Company has issued 261,912 common shares (2011 - 70,793 common shares).

(EXPRESSED IN CANADIAN DOLLARS)

11. WARRANTS

In connection with the September 21, 2012 private placement, the Company issued 1,000,000 warrants exercisable at a price of $1.00 per share until September 21, 2014. These warrants were assigned a fair value of $250,000 using the Black Scholes option pricing model with the following assumptions: Share price $0.89, dividend yield 0%, expected volatility, based on historical volatility 65.94%, a risk free interest rate of 1.30% and an expected life of 1.5 years. The fair value of the service provided by the brokers is not reliably estimable as these services are traditionally transacted to be totally or partially paid in warrants or options, making measurement of that service impractical. Using the same assumptions, the value assigned to the 457,500 Broker Warrants issued, exercisable at a price of $0.80 per share until September 21, 2014, was $145,485.

The following table reflects the continuity of warrants:

	Number of Warrants - 2012	Number of Warrants - 2011	**Weighted Average Exercise Price-2012**	Weighted Average Exercise Price-2011
Balance, at beginning of year	**2,646,483**	3,003,733	**$ 0.75**	$ 0.76
Issued, on private placement units	**1,000,000**	-	**$ 1.00**	$ -
Issued, broker warrants	**457,500**	-	**$ 0.80**	$ -
Exercised	**(1,250)**	(137,500)	**$ 1.00**	$ 1.00
Exercised	**(595,518)**	(219,750)	**$ 0.70**	$ 0.70
Expired	**(442,150)**	-	**$ 1.00**	$ -
Expired	**(1,607,565)**	-	**$ 0.70**	$ -
Balance, at December 31	**1,457,500**	2,646,483	**$ 0.94**	$ 0.75

The outstanding issued warrants at December 31, 2012 and 2011, is comprised as follows:

Expiry Date	Type	**Warrants at December 31, 2012**	Warrants at December 31, 2011	Exercise Price
September 21, 2014	Warrants	**1,000,000**	-	$ 1.00
September 21, 2014	Broker Warrants	**457,500**	-	$ 0.80
June 2, 2012	Warrants	**-**	443,465	$ 1.00
June 2, 2012	Warrants	**-**	2,203,018	$ 0.70
		1,457,500	2,646,483	

12. STOCK-BASED COMPENSATION

On March 22, 2011, the Company granted to Cormark Securities Inc. ("Cormark") 187,500 compensation options (Note 10). The fair value of the service provided by Cormark is not reliably estimable as these services are traditionally transacted to be totally or partially paid in options, making measurement of that service impractical. Each Compensation Option entitles Cormark to purchase 1 common share of the Company at a price of $1.60 until March 22, 2013. The fair value assigned of $183,481 was estimated using the Black-Scholes option pricing model with the following assumptions: share price $1.44, dividend yield 0%, expected volatility 134.52% based on historical trends, a risk free interest rate of 2.60%, and an expected life of 2 years.

On December 6, 2011, the Company granted to the Agents of a brokered private placement 105,632 compensation options (Note 10). The fair value of the service provided by the Agents is not reliably estimable as these services are traditionally transacted to be totally or partially paid in options, making measurement of that service impractical. Each Compensation Option entitles the Agents to purchase 1 common share of the Company at a price of $1.15 until December 6, 2013. The fair value assigned of $48,073 was estimated using the Black-Scholes option pricing model with the following assumptions: share price $0.99, dividend yield 0%, expected volatility 78.68% based on historical trends, a risk free interest rate of 1.68%, and an expected life of 1 year.

On April 12, 2012 the Company granted a total of 2,040,000 options to officers, directors, employees and consultants. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: share price $0.89, dividend yield 0%, expected volatility 85.69% based on historical trends, a risk free interest rate of 1.30%, and an expected life of 2 years. These options vest at a rate of 50% every six months after the date of grant. As a result, the fair value of the options was estimated at $654,416 and will be recognized over the periods the underlying options vest.

Treasury Metals has a 10% rolling stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. As at December 31, 2012, the Company has an additional 1,679,375 (December 31, 2011 – 2,172,507) options available for issuance under the plan.

During the year 2012, the stock-based compensation charged to mineral properties and related deferred costs amounted $237,334 (2011 - Nil)

The Company estimates expected life of options and expected volatility based on historical data, which may differs from actual outcomes.

(EXPRESSED IN CANADIAN DOLLARS)

12. STOCK-BASED COMPENSATION (Continued)

Continuity of the unexercised options to purchase common shares is as follows:

	Number of Stock Options 2012	Number of Stock Options 2011	**Weighted Average Exercise Price 2012**	Weighted Average Exercise Price 2011
Balance, at beginning of year	**3,082,132**	3,629,500	**$ 0.43**	$ 0.43
Compensation options granted (Note 10)	**-**	187,500	**$ -**	$ 1.60
Compensation options granted (Note 10)	**-**	105,632	**$ -**	$ 1.15
Options granted (Note 10)	**2,040,000**	-	**$ 1.30**	$ -
Exercised	**(435,000)**	(663,000)	**$ 0.30**	$ 0.30
Exercised	**-**	(125,000)	**$ -**	$ 0.70
Cancelled	**-**	(52,500)	**$ -**	$ 0.30
Cancelled	**(150,000)**	-	**$ 0.70**	$ -
Cancelled	**(70,000)**	-	**$ 1.30**	$ -
Balance, at December 31	**4,467,132**	3,082,132	**$ 0.90**	$ 0.55

For Stock options exercised during the year, the weighted average market value share at the exercise date was $1.06 (year 2011 - $1.36).

The outstanding options at December 31, 2012, is comprised as follows:

Grant Date	Expiry Date	**Number of Stock Options 2012**	Number of Stock Options 2011	Exercise Price
June 23, 2009	June 23, 2014	**999,000**	1,374,000	$0.30
August 10, 2009	August 10, 2014	**150,000**	150,000	$0.30
August 12, 2010	August 12, 2015	**150,000**	210,000	$0.30
December 13, 2010	December 13, 2013	**905,000**	1,055,000	$0.70
March 22, 2011	March 22, 2013	**187,500**	187,500	$1.60
December 6, 2011	December 6, 2013	**105,632**	105,632	$1.15
April 12, 2012	October 12, 2014	**1,970,000**	-	$1.30
		4,467,132	3,082,132	

At December 31, 2012, 3,482,132 options are fully vested and exercisable .

13. RELATED PARTY TRANSACTIONS

Certain corporate entities and consultants that are related to the Company's officers and directors or persons holding more than 10% of the issued and outstanding shares of the Company provide consulting and other exploration related services to Treasury Metals.

i) Treasury Metals was charged $653 during the year ended December 31, 2012 (2011 - $61,742) by a company in which a former officer and director has an interest. This company provides technical and professional services. These charges are all included in mineral properties and related deferred costs.

(EXPRESSED IN CANADIAN DOLLARS)

13. RELATED PARTY TRANSACTIONS (Continued)

ii) At December 31, 2012, there is a $63,197 accounts payable to Laramide Resources Ltd., a company having a director and an officer in common with the Company, (December 31, 2011 – net receivable of $27,660). During the year ended December 31, 2012 Laramide charged $511,551 (2011 - $271,106) for office space rent, administrative, financial, investor relations services and other expenditures paid by Laramide on behalf of the Company.

iii) During the year ended December 31, 2011, $222 (2011 - $64,559) was charged by a law firm where a former officer of Treasury Metals is an employee.

Transactions with related parties were conducted in the normal course of operations.

14. KEY MANAGEMENT COMPENSATION

Key management includes the Chief Executive Officer and directors of the Company.

The compensation payable to key management is shown below:

		2012		2011
Salaries	**$**	**200,000**	$	333,333
Director fees		**109,500**		109,500
Stock-based compensation, at fair market value		**287,109**		-
	$	**596,609**	$	442,833

Salaries of 2011 include the President and CEO and the former President and CEO during the transitional period.

15. INCOME TAX

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate of 26.5% (2011-28%). A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

		2012		**2011**
Loss before income taxes	**$**	**(1,100,047)**	$	(2,177,014)
Expected income tax recovery		**(291,500)**		(615,000)
Non-taxable portion of capital loss (gain)		**-**		(19,100)
Difference between current and deferred tax rates		**(47,500)**		(242,500)
Stock-based compensation		**149,200**		7,000
Effects of renouncing flow-through expenditures		**2,398,000**		203,400
Other		**(2,100)**		397,000
Undeducted share issue costs		**(133,000)**		(237,300)
Flow-through share premium		**(1,063,400)**		(174,290)
Change in tax benefits not recognized		**(47,300)**		392,500
Income tax expense (recovery) reflected in the statement of operations	**$**	**962,400**	$	(288,290)

(EXPRESSED IN CANADIAN DOLLARS)

15. INCOME TAX (Continued)

The Company's income tax recovery is allocated as follows:

Deferred tax expense (recovery)	**$**	**962,400**	$	(288,290)

The Company's deferred tax assets and liabilities as at December 31, 2012 and 2011:

Deferred income tax assets		**2012**		**2011**
Share issue costs	**$**	**260,900**	$	237,500
Excess book value of investments		**158,300**		62,200
Capital losses carried forward		**463,100**		371,500
Non-capital losses carried forward		**980,900**		565,800
Intangible assets		**286,000**		290,200
Property and equipment		**-**		7,500
	$	**2,149,200**	$	1,534,700
Less: allocated against deferred income tax liabilities	**$**	**(1,241,800)**	$	(743,200)
Less: unrecognized deferred tax asset	**$**	**(907,400)**	$	(791,500)
Deferred income tax assets	**$**	**-**	$	-
Deferred income tax liability				
Deferred exploration expenses	**$**	**(3,259,900)**	$	(743,200)
Property and equipment	**$**	**(7,700)**	$	-
Less: reduction due to allocation of applicable deferred income tax assets		**1,241,800**		743,200
Net deferred tax liability	**$**	**(2,025,800)**	$	-

The Company's non-capital income tax losses expire as follows:

2027	$ 64,600
2028	591,800
2029	173,200
2030	396,300
2031	1,077,700
2032	1,398,100
	$ 3,701,700

16. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company is committed to spend $4,500,000 on Canadian exploration costs as part of its flow-through funding agreement dated on September 21, 2012. At December 31, 2012 the Company has spent approximately $1,500,000.

17. SUBSEQUENT EVENTS

On March 6, 2013 the Company granted a total of 1,850,000 options to officers, directors, employees and consultants. These options have an exercise price of $0.50, vest at a rate of 50% every six months after the date of grant and expire on March 6, 2016.

18. FINANCIAL RISK FACTORS

Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its working capital position and the capital stock, warrant, and stock option components of its shareholders equity.

At December 31, 2012, the Company has a working capital of $1,482,962 excluding the non-cash unrenounced flow-through share premium liability (December 31, 2011 - $3,193,097). Capital stock and contributed surplus total $63,402,850 (December 31, 2011 - $57,529,598). There are 4,467,132 options outstanding as at December 31, 2012 (December 31, 2011 - 3,082,132) with an average exercise price of $0.90 (December 31, 2011 - $0.55).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2012. The Company is not subject to any externally imposed capital requirements.

Risk disclosures

Exposure to credit, interest rate and currency risks arises in the normal course of the Company’s business.

Credit risk

The Company has cash and cash equivalents balance of $2,191,829 (December 31, 2011 - $3,593,484). The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Interest rate risk

The Company has no significant exposure to interest rate risk as approximately 75% of its long-term debt has fixed interest rate and 25% of that debt has an interest rate of prime plus 3%. As a result, a variance of 1% in the prime interest rate would have an effect of approximately $2,000 in the annual comprehensive results of the Company.

18. FINANCIAL RISK FACTORS (Continued)

Foreign currency risk

The Company is exposed to foreign currency risk on financial assets and liabilities that are denominated in a currency other than the Canadian dollar. The currency giving rise to this risk is primarily the U.S. dollar, the balance of net monetary assets in such currency as of December 31, 2012 is $297,280 (December 31, 2011 - $159,674).

Liquidity risk

The Company is exposed to liquidity risk primarily as a result of its trade accounts payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2012, the Company had a cash and cash equivalents balance of $2,191,829 (December 31, 2011 - $3,593,484) to settle current liabilities of $1,249,000 (December 31, 2011 - $752,072), excluding the non-cash unrenounced flow-through share premium liability. All of the Company's trade accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Sensitivity analysis

In managing currency risks the Company aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in foreign exchange would have an impact on earnings.

As at December 31, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period.

i) The Company is exposed to foreign currency risk on fluctuations of balances that are denominated in US currency related to cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect the net loss by $29,728.

ii) The Company is exposed to market risk as it relates to its investments held in marketable securities. If market prices had varied by 10% from their December 31, 2012 fair market value positions, the comprehensive income would have varied by $64,687.

Fair value hierarchy

The Company has designated its cash and cash equivalents as FVTPL financial assets and investments as available for sale, which are measured at fair value. Fair value of investments are determined based on transaction value and are categorized as Level 1 measurement.

Accounts payable and accrued liabilities, amounts due to Laramide Resources Ltd., and the long-term debt are considered as other financial liabilities, which are measured at amortized cost which also equals fair value.

As at December 31, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.