TREASURY METALS

INCORPORATED

**(An exploration stage company)**

# INTERIM CONDENSED FINANCIAL STATEMENTS
# UNAUDITED

## FOR THE THREE AND NINE MONTHS ENDED

## SEPTEMBER 30, 2013 AND 2012

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying interim condensed financial statements of Treasury Metals Inc. were prepared by management in accordance with International Financial Reporting Standards. The most significant of these standards have been set out in the note 2 of these interim condensed financial statements. Any applicable changes in accounting policies have also been disclosed in these financial statements. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

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

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

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate control over its financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on "Internal Control Over Financial Reporting Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at September 30, 2013.

## CONCLUSION RELATING TO DISCLOSURE CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive and Chief Financial Officers, of the effectiveness of the Company's disclosure controls and procedures as defined in the National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at September 30, 2013.

## NOTICE TO READER

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

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

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

## TREASURY METALS INC.
**(An exploration stage company)**
**INTERIM CONDENSED BALANCE SHEETS - UNAUDITED**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **$ 399,794** | $ 2,191,829 |
| Accounts receivable and prepaid expenses (Note 5) | **467,904** | 540,133 |
| Investments (Note 6) | **189,749** | 646,874 |
| | **1,057,447** | 3,378,836 |
| Property and equipment (Note 7) | **2,568,497** | 2,619,707 |
| Mineral properties and related deferred costs (Note 8) | **51,141,578** | 48,428,792 |
| | **$ 54,767,522** | $ 54,427,335 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Note 9) | **$ 780,708** | $ 1,133,212 |
| Due to Laramide Resources Ltd. (Note 14) | **-** | 63,197 |
| Current portion of long-term debt (Note 10) | **79,982** | 52,591 |
| Unrenounced flow-through shares premium | **1,149,209** | 984,375 |
| | **2,009,899** | 2,233,375 |
| Long-term debt (Note 10) | **636,291** | 688,023 |
| Deferred tax liability | **2,025,800** | 2,025,800 |
| | **4,671,990** | 4,947,198 |
| **Shareholders' Equity** | | |
| Capital stock (Note 11) | **61,596,832** | 60,163,577 |
| Contributed surplus | **3,521,148** | 3,239,273 |
| Deficit | **(13,370,799)** | (12,728,189) |
| Accumulated other comprehensive income (loss) | **(1,651,649)** | (1,194,524) |
| | **50,095,532** | 49,480,137 |
| | **$ 54,767,522** | $ 54,427,335 |

Commitments and Contractual Obligations (Note 16)

SIGNED ON BEHALF OF THE BOARD

(Signed) *"Doug Bache"*
Director

(Signed) *"Marc Henderson"*
Director



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

## TREASURY METALS INC.

**(An exploration stage company)**
**INTERIM CONDENSED STATEMENTS OF OPERATIONS - UNAUDITED**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Three Months Ended September 30 **2013** | Three Months Ended September 30 2012 | Nine Months Ended September 30 **2013** | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Royalty income, net (Note 8) | **$ 143,139** | $ 193,595 | **$ 616,969** | $ 701,567 |
| Gain on sale of investments | **-** | - | **-** | 5,731 |
| | **143,139** | 193,595 | **616,969** | 707,298 |
| **Expenses** | | | | |
| Administrative, office and shareholder services | **$ 244,508** | $ 221,460 | **$ 801,387** | $ 835,456 |
| Professional fees | **63,719** | 73,324 | **192,347** | 228,136 |
| Salary and benefits | **52,829** | 51,505 | **164,293** | 179,261 |
| Stock-based compensation (Note 13) | **-** | 142,857 | **101,552** | 265,527 |
| Amortization | **-** | 13,694 | **-** | 41,082 |
| | **361,056** | 502,840 | **1,259,579** | 1,549,462 |
| **Loss before income taxes** | **(217,917)** | (309,245) | **(642,610)** | (842,164) |
| **Income taxes** | **-** | - | **-** | (825,000) |
| **Net loss** | **$ (217,917)** | $ (309,245) | **$ (642,610)** | $ (1,667,164) |
| **Loss per share - basic and diluted** | **$ 0.00** | $ (0.01) | **$ 0.00** | $ (0.03) |
| **Weighted average number of shares outstanding** | **64,149,759** | 54,426,966 | **62,822,167** | 53,371,751 |



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

# TREASURY METALS INC.

**(An exploration stage company)**

**INTERIM CONDENSED STATEMENTS OF OTHER COMPREHENSIVE LOSS - UNAUDITED**

**(EXPRESSED IN CANADIAN DOLLARS)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | **2013** | 2012 |
| **Net loss** | **$ (217,917)** | $ (309,245) | **$ (642,610)** | $ (1,667,164) |
| **Other comprehensive income (loss)** | | | | |
| **Item that may be reclassified subsequently to net income** | | | | |
| Unrealized gain (loss) on available for sale investments, net of taxes | **17,250** | 8,625 | **(457,125)** | (1,142,836) |
| Reclassification of realized gain on available for sale investments to income, net of taxes | **-** | - | **-** | (5,731) |
| | **17,250** | 8,625 | **(457,125)** | (1,148,567) |
| **Comprehensive loss** | **$ (200,667)** | $ (300,620) | **$ (1,099,735)** | $ (2,815,731) |



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

**TREASURY METALS INC.**
**(An exploration stage company)**
**INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - UNAUDITED**
**(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 | - | (281,250) | - | - | - | (281,250) |
| Issuance of warrants | - | (250,000) | 250,000 | - | - | - |
| Commission on private placement non-cash | - | (145,485) | 145,485 | - | - | - |
| Expiry of warrants | - | 436,149 | (436,149) | - | - | - |
| Issued with respect to property allocations | 20,000 | 14,600 | - | - | - | 14,600 |
| Stock-based compensation | - | - | 459,047 | - | - | 459,047 |
| Net loss for the period | - | - | - | (1,667,164) | - | (1,667,164) |
| Other comprehensive loss | - | - | - | - | (1,148,567) | (1,148,567) |
| **Balance, September 30, 2012** | **61,223,162** | **$ 61,107,851** | **$ 2,699,193** | **$ (12,332,906)** | **$ (1,116,898)** | **$ 50,357,240** |
| Unrenounced flow-through shares premium(Note 11) | - | (703,125) | - | - | - | (703,125) |
| Issued with respect to properties allocations | 241,912 | 195,000 | - | - | - | 195,000 |
| Expiry of warrants-reversal | - | (436,149) | 436,149 | - | - | - |
| Stock-based compensation | - | - | 103,931 | - | - | 103,931 |
| Net loss for the period | - | - | - | (395,283) | - | (395,283) |
| Other comprehensive loss | - | - | - | - | (77,626) | (77,626) |
| **Balance, December 31, 2012** | **61,465,074** | **$ 60,163,577** | **$ 3,239,273** | **$ (12,728,189)** | **$ (1,194,524)** | **$ 49,480,137** |
| Private placement | 2,638,332 | 1,187,250 | - | - | - | 1,187,250 |
| Flow through private placement | 1,194,444 | 597,222 | - | - | - | 597,222 |
| Share issue costs | - | (70,766) | - | - | - | (70,766) |
| Unrenounced flow-through shares premium (Note 11) | - | (164,834) | - | - | - | (164,834) |
| Issuance of warrants | - | (115,617) | 115,617 | - | - | - |
| Stock-based compensation(Note 13) | - | - | 166,258 | - | - | 166,258 |
| Net loss for the period | - | - | - | (642,610) | - | (642,610) |
| Other comprehensive loss | - | - | - | - | (457,125) | (457,125) |
| **Balance, September 30, 2013** | **65,297,850** | **$ 61,596,832** | **$ 3,521,148** | **$ (13,370,799)** | **$ (1,651,649)** | **$ 50,095,532** |



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

# TREASURY METALS INC.

**(An exploration stage company)**

**INTERIM CONDENSED STATEMENTS OF CASH FLOWS - UNAUDITED**

**(EXPRESSED IN CANADIAN DOLLARS)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Cash and cash equivalents (used in) provided by:** | | | | |
| **Operating Activities** | | | | |
| Net loss | **$ (217,917)** | $ (309,245) | **$ (642,610)** | $ (1,667,164) |
| **Adjustments for:** | | | | |
| Gain on sale of investments | **-** | - | **-** | (5,731) |
| Deferred income tax | **-** | - | **-** | 825,000 |
| Stock-based compensation | **-** | 142,857 | **101,552** | 265,527 |
| Amortization | **-** | 13,694 | **-** | 41,082 |
| | **(217,917)** | (152,694) | **(541,058)** | (541,286) |
| **Net change in non-cash working capital items:** | | | | |
| Accounts receivable and prepaid expenses | **(75,608)** | 106,699 | **72,229** | (257,337) |
| Accounts payable and accrued liabilities | **45,927** | (167,492) | **(352,502)** | 873,967 |
| | **(247,598)** | (213,487) | **(821,331)** | 75,344 |
| **Financing Activities** | | | | |
| Private placement, net of issue costs | **-** | 5,536,437 | **1,713,705** | 5,536,437 |
| Warrants and options exercised | **-** | - | **-** | 548,613 |
| Due to Laramide Resources Ltd. | **(515)** | 47,523 | **(63,197)** | 80,763 |
| Payments made on long-term debt | **(9,618)** | (6,404) | **(24,341)** | (22,917) |
| | **(10,133)** | 5,577,556 | **1,626,167** | 6,142,896 |
| **Investing Activities** | | | | |
| Proceeds on sale of investments | **-** | - | **-** | 43,749 |
| Acquisition of property and equipment | **-** | (2,127) | **(8,378)** | (34,395) |
| Acquisition of mineral properties and related deferred costs | **(354,146)** | (701,253) | **(2,588,493)** | (4,216,446) |
| | **(354,146)** | (703,380) | **(2,596,871)** | (4,207,092) |
| **Change in cash and cash equivalents** | **(611,877)** | 4,660,689 | **(1,792,035)** | 2,011,148 |
| **Cash and cash equivalents, beginning of the period** | **1,011,671** | 943,943 | **2,191,829** | 3,593,484 |
| **Cash and cash equivalents, end of the period** | **$ 399,794** | $ 5,604,632 | **$ 399,794** | $ 5,604,632 |



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

## TREASURY METALS INC.
**(An exploration stage company)**
**INTERIM CONDENSED STATEMENTS OF CASH FLOWS - UNAUDITED (Continued)**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Three Months Ended September 30 2013 | Three Months Ended September 30 2012 | Nine Months Ended September 30 **2013** | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| **Supplementary cash flow information** | | | | |
| Changes in non cash investing activities: | | | | |
| Shares issued for purchase of mineral properties and property and equipment | **$ -** | $ - | **$ -** | $ 14,600 |
| Options / Warrants issued for commission on private placement | **$ -** | $ 145,485 | **$ -** | $ 145,485 |
| Stock-based compensation capitalized to mineral properties | **$ -** | $ 104,116 | **$ 64,706** | $ 193,520 |
| Amortization capitalized to mineral properties | **$ 19,862** | $ - | **$ 59,587** | $ - |



*The accompanying notes are an integral part of these interim 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 November 14, 2013, the Board of Directors approved the financial statements for the periods ended September 30, 2013 and 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012.

Except as described below, these condensed interim financial statements reflect the accounting policies applied by the Company in its financial statements for the year ended December 31, 2012.

As required by the IASB, effective January 1, 2013 the Company adopted the following standards and amendments to IFRS:

- *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 are accounted for using the equity method whereas for a joint operation the venture is accounted for using the proportionate consolidation method. The Company's adoption of IFRS 11 had no effect on its financial statements.

- *IFRS 12 Disclosure of Interests in Other Entities* - is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company's adoption of IFRS 12 required no additional disclosure on its interim financial statements.

- Amendments to *IFRS 10, IFRS 11 and IFRS 12*: *Transition guidance* - this amendment clarifies certain transitional guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time. The adoption of these amendments had no effect on the Company's financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- *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. The adoption of IFRS 13 did not require any adjustment to the valuation techniques currently used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- *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. The Company's adoption of this amendment did not result in a different presentation within the statement of comprehensive income, as all the items will be reclassified to net income or loss in the future.

- *IAS 19 Employee Benefits* amendment eliminates 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. The adoption of this amendment had no effect on the financial statements since the Company's benefits are not included in the defined benefits plans.

- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* - this interpretation provides guidance on the accounting for waste removal costs that are incurred in surface mining activity during the production phase of a mine. The Company's adoption of this standard had no effect on its financial statements as the Company does not have any surface mines in the production phase.

Where necessary, the comparative information has been adjusted to conform to the current year presentation. In such a case, the nature of the reclassification; the amount of each item that is reclassified; and the reason for the reclassification is disclosed.

**Basis of Preparation**

These interim 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(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 expenses on assets acquired under such leases are included in mineral properties and related deferred costs if directly related to mineral properties.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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 interim financial statements, the IASB and IFRIC have amended the following standard which is not yet effective for the relevant reporting periods.

*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.

Amendments to IAS 32 Offsetting Financial Assets and Liabilities - this amendment clarifies certain aspects of offsetting and net and gross settlement. The Company has not yet determined the effect of adoption of IAS 32 on its financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

## 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.

*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:

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Cash | **$ 349,794** | $ 234,393 |
| Preferred investment account | **-** | 1,907,436 |
| Cashable GIC | **50,000** | 50,000 |
| | **$ 399,794** | $ 2,191,829 |

## 5. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

The balances are comprised as follows:

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Royalty receivable | **$ 140,747** | $ 116,270 |
| Prepaid expenses and advances | **251,609** | 117,588 |
| Harmonized sales tax | **45,248** | 212,188 |
| Other receivable | **30,300** | 94,087 |
| | **$ 467,904** | $ 540,133 |

## 6. INVESTMENTS

The Company's investments are classified as available for sale investments and are carried at fair market value. The balance is comprised of the following:

| | **Number of Shares** | **September 30, 2013** | Number of Shares | December 31, 2012 |
|---|---|---|---|---|
| Goldgroup Mining Inc. (Formerly Sierra Minerals Inc.) | **1,725,000** | **$ 189,749** | 1,725,000 | $ 646,874 |
| | | **$ 189,749** | | $ 646,874 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 7. PROPERTY AND EQUIPMENT

| Cost | Land | Building | Furniture and equipment | Vehicles | Total |
|---|---|---|---|---|---|
| At December 31, 2012 | $1,456,092 | $1,061,062 | $ 86,424 | $ 125,107 | $2,728,685 |
| Additions | - | - | 8,117 | - | 8,117 |
| At September 30, 2013 | $1,456,092 | $1,061,062 | $ 94,541 | $ 125,107 | $2,736,802 |
| **Accumulated amortization** | | | | | |
| At December 31, 2012 | $ - | $ (44,471) | $ (17,603) | $ (46,904) | $ (108,978) |
| Amortization for the period | - | (30,498) | (10,063) | (18,766) | (59,327) |
| At September 30, 2013 | $ - | $ (74,969) | $ (27,666) | $ (65,670) | $ (168,305) |
| Net book value at September 30, 2013 | $1,456,092 | $ 986,093 | $ 66,875 | $ 59,437 | $2,568,497 |

| 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 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS

As of September 30, 2013 and 2012, accumulated costs with respect to the Company's interest in mineral properties, consisted of the following:

| | Balance December 31, 2012 | Additions | **Balance September 30, 2013** |
|---|---|---|---|
| Goliath Gold Project | $ 47,784,354 | $ 2,553,068 | **$ 50,337,422** |
| Lara Polymetallic Project - BC | 240,542 | 102,165 | **342,707** |
| Goldcliff Property | 403,896 | 57,553 | **461,449** |
| | $ 48,428,792 | $ 2,712,786 | **$ 51,141,578** |

| | 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 |

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 first and second quarters of 2013, $100,784 (2012-$40,073) 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 December 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.

**(EXPRESSED IN CANADIAN DOLLARS)**

## 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%.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The balances are comprised as follows:

| | **September 30, 2013** | **December 31, 2012** |
|---|---|---|
| Trade accounts payable | **$ 659,665** | $ 941,079 |
| Accrued liabilities | **119,046** | 155,832 |
| Payroll deductions payable | **1,997** | 36,301 |
| | **$ 780,708** | $ 1,133,212 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 10. LONG-TERM DEBT

| | Current Portion | Long Term Portion | Total Debt September 30, 2013 |
|---|---|---|---|
| Mortgages (i) | $ 17,755 | $ 636,291 | $ 654,046 |
| Finance lease payable | 62,227 | - | 62,227 |
| | $ 79,982 | $ 636,291 | $ 716,273 |

| | 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 |

(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 | $ 4,314 |
| 2014 | 518,043 |
| 2015 | 19,236 |
| 2016 | 20,506 |
| 2017 and beyond | 91,947 |
| Total Mortgages | $ 654,046 |

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 | $ 64,283 |
| Less: amount representing interest | (2,056) |
| Present value of finance lease payable as at September 30, 2013 | $ 62,227 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 11. CAPITAL STOCK

a) AUTHORIZED

Unlimited common shares

b) ISSUED

| COMMON SHARES | Number of Shares | Stated Value |
|---|---|---|
| **Balance, December 31, 2011** | **52,546,394** | **$ 55,018,689** |
| Flow through 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 | - | (281,250) |
| Issuance of warrants | - | (250,000) |
| Commission on private placement non-cash | - | (145,485) |
| Expiry of warrants | - | 436,149 |
| Issued with respect to property allocations | 20,000 | 14,600 |
| **Balance, September 30, 2012** | **61,223,162** | **$ 61,107,851** |
| Unrenounced flow-through shares premium | - | (703,125) |
| Issued with respect to properties allocations | 241,912 | 195,000 |
| Expiry of warrants-reversal (Note 8) | - | (436,149) |
| **Balance, December 31, 2012** | **61,465,074** | **$ 60,163,577** |
| Private placement | 2,638,332 | 1,187,250 |
| Flow through private placement | 1,194,444 | 597,222 |
| Share issue costs | - | (70,766) |
| Unrenounced flow-through shares premium | - | (164,834) |
| Issuance of warrants | - | (115,617) |
| **Balance, September 30, 2013** | **65,297,850** | **$ 61,596,832** |

## 11. CAPITAL STOCK (Continued)

Private Placements

On May 1st, 2013, the Company completed a non-brokered private placement (the "Offering"). The Offering consisted of 2,638,332 units (the "Units") of the Company at a price of $0.45 per Unit and 1,194,444 flow-through Shares (the "Flow-Through Shares") at a price of $0.50 per Flow-Through Share, for total aggregate gross proceeds of $1.78 million. Each Unit consists of one common share in the Company and one half of one common share purchase warrant of the Company exercisable for a period of 36 months from the closing date. Each whole warrant shall be exercisable into one common share of the Company at $0.75 per share. The Units and Flow-Through Shares are subject to a four-month hold period under applicable securities laws in Canada. The net proceeds raised through the Offering will be for the advancement of the Company's Goliath Gold Project including completion of an Environmental Impact Statement and for general working capital purposes. The Company paid a finder's fee of 7% cash commission to certain parties with respect to service provided in connection with the Offering.

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.

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 September 30, 2013 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.

**(EXPRESSED IN CANADIAN DOLLARS)**

## 12. WARRANTS

In connection with the May 1st, 2013 private placement, the Company issued 1,319,166 warrants exercisable at a price of $0.75 per share until May 1st, 2016. These warrants were assigned a fair value of $115,617 using the Black Scholes option pricing model with the following assumptions: Share price $0.42, dividend yield 0%, expected volatility, based on historical volatility 67.89%, a risk free interest rate of 1.30% and an expected life of 2 years.

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 - 2013** | Number of Warrants - 2012 | **Weighted Average Exercise Price-2013** | Weighted Average Exercise Price-2012 |
|---|---|---|---|---|
| Balance, at beginning of perod | **1,457,500** | 2,646,483 | **$ 0.94** | $ 0.75 |
| Issued, on private placement units | **1,319,166** | 1,000,000 | **$ 0.75** | $ 1.00 |
| Issued, broker warrants | **-** | 457,500 | **$ -** | $ 0.80 |
| Exercised | **-** | (1,250) | **$ -** | $ 1.00 |
| Exercised | **-** | (595,518) | **$ -** | $ 0.70 |
| Expired | **-** | (442,150) | **$ -** | $ 1.00 |
| Expired | **-** | (1,607,565) | **$ -** | $ 0.70 |
| **Balance, at September 30, 2013 and December 31, 2012** | **2,776,666** | 1,457,500 | **$ 0.85** | $ 0.94 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 12. WARRANTS (Continued)

The outstanding issued warrants are comprised as follows:

| Expiry Date | Type | Warrants at September 30, 2013 | Warrants at December 31, 2012 | Exercise Price |
|---|---|---|---|---|
| September 21, 2014 | Warrants | **1,000,000** | 1,000,000 | $ 1.00 |
| September 21, 2014 | Broker Warrants | **457,500** | 457,500 | $ 0.80 |
| May 1, 2016 | Warrants | **1,319,166** | - | $ 0.75 |
| | | **2,776,666** | 1,457,500 | |

## 13. STOCK-BASED COMPENSATION

On March 6, 2013, the Company granted a total of 1,850,000 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 $0.43, dividend yield 0%, expected volatility 68.25% 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 $263,934 and will be recognized over the periods the underlying options vest.

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 September 30, 2013, the Company has an additional 580,785 (December 31, 2012 – 1,679,375) options available for issuance under the plan.

During the period ended September 30, 2013, the stock-based compensation charged to mineral properties and related deferred costs amounted $64,706 (2012 - 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)**

## 13. STOCK-BASED COMPENSATION (Continued)

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

| | **Number of Stock Options 2013** | Number of Stock Options 2012 | **Weighted Average Exercise Price 2013** | Weighted Average Exercise Price 2012 |
|---|---|---|---|---|
| Balance, at beginning of year | **4,467,132** | 3,082,132 | **$ 0.90** | $ 0.43 |
| Options granted | **1,850,000** | 2,040,000 | **$ 0.50** | $ 1.30 |
| Exercised | **-** | (435,000) | **$ -** | $ 0.30 |
| Expired | **(187,500)** | - | **$ 1.60** | $ - |
| Cancelled | **-** | (150,000) | **$ -** | $ 0.70 |
| Cancelled | **(75,000)** | (70,000) | **$ 1.30** | $ 1.30 |
| **Balance, at September 30, 2013 and December 31, 2012** | **6,054,632** | 4,467,132 | **$ 0.75** | $ 0.90 |

For the Stock options exercised during the year 2012, the weighted average market value share at the exercise date was $1.06.

The outstanding options are comprised as follows:

| Grant Date | Expiry Date | **Number of Stock Options at September 30, 2013** | Number of Stock Options at December 31, 2012 | Exercise Price |
|---|---|---|---|---|
| June 23, 2009 | June 23, 2014 | **999,000** | 999,000 | $0.30 |
| August 10, 2009 | August 10, 2014 | **150,000** | 150,000 | $0.30 |
| August 12, 2010 | August 12, 2015 | **150,000** | 150,000 | $0.30 |
| December 13, 2010 | December 13, 2013 | **905,000** | 905,000 | $0.70 |
| March 22, 2011 | March 22, 2013 | **-** | 187,500 | $1.60 |
| December 6, 2011 | December 6, 2013 | **105,632** | 105,632 | $1.15 |
| April 12, 2012 | October 12, 2014 | **1,895,000** | 1,970,000 | $1.30 |
| March 6, 2013 | March 6, 2016 | **1,850,000** | - | $0.50 |
| | | **6,054,632** | 4,467,132 | |

At September 30, 2013, 4,204,632 options are fully vested and exercisable .

## 14. 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 services to Treasury Metals, as follows:

i) At September 30, 2013, there is $Nil (December 31, 2012 – $63,197) of accounts payable to Laramide Resources Ltd., a company having a director and an officer in common with the Company. During the period ended September 30, 2013 Laramide charged $396,943 (2012 - $375,926) for office space rent, administrative, financial, investor relations services and other expenditures paid by Laramide on behalf of the Company.

**(EXPRESSED IN CANADIAN DOLLARS)**

## 14. RELATED PARTY TRANSACTIONS (Continued)

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

## 15. KEY MANAGEMENT COMPENSATION

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

The compensation payable to key management is shown below:

| **Six months ended September 30**, | | **2013** | | 2012 |
|---|---|---|---|---|
| Salaries | **$** | **153,604** | $ | 153,447 |
| Director fees | | **56,750** | | 87,750 |
| Stock-based compensation, at fair market value | | **-** | | 287,109 |
| | **$** | **210,354** | $ | 528,306 |

## 16. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company is committed to spend $5.1 million on Canadian exploration costs as part of its flow-through funding agreements dated on September 21, 2012 and May 1, 2013. At September 30, 2013 the Company has spent approximately $4.1 million.

## 17. 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 September 30, 2013, the Company has a working capital of $196,757 excluding the non-cash unrenounced flow-through share premium liability (December 31, 2012 - $2,129,836). Capital stock and contributed surplus total $65,117,980 (December 31, 2012 - $63,402,850 ). There are 6,054,632 options outstanding as at September 30, 2013 (December 31, 2012 - 4,467,132) with an average exercise price of $0.75 (December 31, 2012 - $0.90).

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.

## 17. FINANCIAL RISK FACTORS (Continued)

There were no changes in the Company's approach to capital management during the period ended September 30, 2013. 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 $399,794 (December 31, 2012 - $2,191,829). 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.

### 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 September 30, 2013 is $284,950 (December 31, 2012 - $297,280).

### 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 September 30, 2013, the Company had a cash and cash equivalents balance of $399,794 (December 31, 2012 - $2,191,829) to settle current liabilities of $860,690 (December 31, 2012 - $1,249,000), 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 September 30, 2013, 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.

## 17. FINANCIAL RISK FACTORS (Continued)

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 comprehensive income by $28,495.

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 September 30, 2013 fair market value positions, the comprehensive income would have varied by $18,975.

### 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 September 30, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.