

TARANIS RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Taranis Resources Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Taranis Resources Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Taranis Resources Inc. to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 25, 2013

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

	2012	2011
ASSETS		
Current		
Cash	\$ 318,457	\$ 162,809
Receivables	8,252	59,346
Marketable securities (Note 5)	<u>-</u>	<u>26,250</u>
	326,709	248,405
Buildings and equipment (Note 6)	47,659	47,659
Exploration and evaluation assets (Note 7)	<u>5,228,963</u>	<u>5,001,926</u>
	<u>\$ 5,603,331</u>	<u>\$ 5,297,990</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 190,120	\$ 310,713
Loan Payable (Note 9)	100,000	100,000
Due to related parties (Note 8)	<u>10,315</u>	<u>10,315</u>
	300,435	421,028
Deferred income taxes (Note 14)	<u>192,000</u>	<u>243,000</u>
	<u>492,435</u>	<u>664,028</u>
Shareholders' equity		
Capital stock (Note 10)	7,083,352	6,422,652
Subscription received in advance (Note 10)	-	30,000
Share-based payment reserve (Note 10)	1,108,418	949,418
Deficit	<u>(3,080,874)</u>	<u>(2,768,108)</u>
	<u>5,110,896</u>	<u>4,633,962</u>
	<u>\$ 5,603,331</u>	<u>\$ 5,297,990</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on April 25, 2013:

"John J. Gardiner" Director "George R. Kent" Director

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2012	2011
EXPENSES		
Consulting, travel and marketing	\$ 48,204	\$ 63,889
Licenses and fees	21,172	22,272
Office and miscellaneous	18,276	11,429
Professional fees	120,289	139,579
Stock-based compensation (Note 10)	<u>159,000</u>	<u>-</u>
Loss before other items and income taxes	<u>(366,941)</u>	<u>(237,169)</u>
OTHER ITEMS		
Foreign exchange gain (loss)	(7,059)	403
Gain on sale of marketable securities (Note 5)	10,234	-
Unrealized loss on marketable securities	-	(11,250)
Recovery of reclamation bond	-	10,174
Write-off of exploration and evaluation assets (Note 7)	<u>-</u>	<u>(290,925)</u>
	<u>3,175</u>	<u>(291,598)</u>
Loss before taxes	(363,766)	(528,767)
Deferred tax recovery (Note 14)	<u>51,000</u>	<u>42,509</u>
Loss and comprehensive loss for the year	<u>\$ (312,766)</u>	<u>\$ (486,258)</u>
Basic and diluted loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>34,324,290</u>	<u>29,496,959</u>

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (312,766)	\$ (486,258)
Items not affecting cash:		
Unrealized loss on marketable securities	-	11,250
Deferred tax recovery	(51,000)	(42,509)
Stock-based compensation	159,000	-
Gain on sale of marketable securities	(10,234)	-
Write-off of exploration and evaluation assets	-	290,925
Changes in non-cash working capital items:		
Decrease in receivables	51,094	7,213
Increase in accounts payable and accrued liabilities	<u>14,759</u>	<u>123,312</u>
Net cash used in operating activities	<u>(149,147)</u>	<u>(96,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of marketable securities	36,484	-
Exploration and evaluation asset expenditures	(373,540)	(756,709)
	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(337,056)</u>	<u>(756,709)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	663,550	735,000
Share issuance costs	(21,699)	(22,749)
Subscription received in advance	-	30,000
Loan payable	-	100,000
Due to related parties	<u>-</u>	<u>(180)</u>
Net cash provided by financing activities	<u>641,851</u>	<u>842,071</u>
Increase (decrease) in cash during the year	155,648	(10,705)
Cash, beginning of year	<u>162,809</u>	<u>173,514</u>
Cash, end of year	<u>\$ 318,457</u>	<u>\$ 162,809</u>
Cash paid for interest	\$ 5,000	\$ 1,660
Cash received for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 13)

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Capital Stock		Subscription Received in Advance	Share-Based Payment Reserve	Deficit	Total
	Number of Shares	Amount				
Balance as at December 31, 2010	26,823,260	\$ 5,618,691	\$ -	\$ 949,418	\$ (2,281,850)	\$ 4,286,259
Loss for the year	-	-	-	-	(486,258)	(486,258)
Shares issued in settlement of debt	631,727	94,759	-	-	-	94,759
Private placement	3,675,000	735,000	-	-	-	735,000
Share issue costs	-	(25,798)	-	-	-	(25,798)
Subscription received in advance	-	-	30,000	-	-	30,000
Balance as at December 31, 2011	31,129,987	6,422,652	30,000	949,418	(2,768,108)	4,633,962
Loss for the year	-	-	-	-	(312,766)	(312,766)
Private placements	4,745,002	693,550	(30,000)	-	-	663,550
Share issue costs	-	(32,850)	-	-	-	(32,850)
Stock-based compensation – options granted	-	-	-	159,000	-	159,000
Balance as at December 31, 2012	35,874,989	\$ 7,083,352	\$ -	\$ 1,108,418	\$ (3,080,874)	\$ 5,110,896

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Taranis Resources Inc. (the “Company”) is an exploration stage company incorporated in the Province of British Columbia. The registered office and records office of the Company are located at Suite 1710 – 1177 West Hastings Street, Vancouver BC. The Company together with its subsidiaries is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable.

The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration projects, and ultimately, the Company’s ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the development of the properties, and upon future profitable production or, alternatively, upon the Company’s ability to dispose of its interest on an advantageous basis, all of which are uncertain. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

While the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. BASIS OF PRESENTATION

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Critical accounting estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the consolidated statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.

2. BASIS OF PREPARATION (cont'd...)

Critical accounting estimates (cont'd...)

- ii) The inputs used in calculating the fair value for stock-based compensation expense included in profit and loss and stock-based share issuance costs included in shareholders' equity. The stock-based compensation expense is estimated using the Black-Scholes options-pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.
- iii) The inputs used in calculating the fair value of warrants included in units issued in private placements which are valued based on the difference between the trading value of the shares on the date of the issuance of the units and the proceeds realized on the units.
- iv) The valuation of shares issued in non-cash transactions, including the settlement of debt. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- v) The useful lives of buildings and equipment which is based on industry standards for the term of use of the buildings and equipment. Those items of buildings and equipment that are not being utilized in operations or for which there is an indefinite life are not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the wholly-owned subsidiaries Taranis Resources U.S. Inc. and ENVI Joint Ventures LLC, incorporated in the U.S.A. and Taitiu Oy, a Finnish Corporation. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company to be the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial liabilities(cont'd...)

The Company has classified its cash and marketable securities as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities, loans payable and due to related parties are classified as other financial liabilities.

Marketable securities

Marketable securities are classified as fair value through profit and loss and measured at fair market value.

Buildings and equipment

Buildings and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at an annual rate of 4% for buildings and 20% for equipment. Buildings and equipment that are withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to items of buildings and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

Gains and losses on disposal of an item of buildings and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the asset and are recognized in the statement of operations and comprehensive income.

Exploration and evaluation - mineral properties

Pre-exploration costs are expensed as incurred. Costs related to the acquisition and exploration of mineral properties are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Stock-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. A corresponding increase in share-based payment reserve is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion of stock-based compensation previously recorded in share-based payment reserve. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the stock-based compensation. Otherwise, stock-based compensation is measured at the fair value of goods or services received.

Income taxes

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

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the Company does not recognize the deferred tax asset.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in income at the same time the qualifying expenditures are made and renounced to the shareholders.

4. NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments IFRS 9, “Financial Instruments” (“IFRS 9”) was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial instruments.

IFRS 11, Joint Arrangements, 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 of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities Nonmonetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

5. MARKETABLE SECURITIES

	December 31, 2012	December 31, 2011
Excalibur Resources Ltd. (“Excalibur”)	\$ Nil	\$ 26,250

During fiscal 2012, the Company sold 250,000 common shares at a book value of \$26,250 for proceeds of \$36,484, resulting in a gain on sale of \$10,234.

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

6. BUILDINGS AND EQUIPMENT

	Buildings	Equipment	Total
Balance, December 31, 2012 and December 31, 2011	\$ 33,634	\$ 18,895	\$ 52,529
Accumulated depreciation			
Balance, December 31, 2010	\$ 1,280	\$ 3,590	\$ 4,870
Depreciation for the years	-	-	-
Disposals	-	-	-
Balance, December 31, 2012 and December 31, 2011	\$ 1,280	\$ 3,590	\$ 4,870
Carrying amounts			
As at December 31, 2012 and December 31, 2011	\$ 32,354	\$ 15,305	\$ 47,659

During fiscal 2012 and 2011, the Company did not use the buildings and equipment and therefore did not record any depreciation.

7. EXPLORATION AND EVALUATION ASSETS

2012	Canada	Finland	December 31, 2012
Acquisition costs:			
Balance, beginning of year	\$ 657,818	\$ 140,335	\$ 798,153
Additions	7,814	19,578	27,392
Disposals	-	-	-
Balance, end of year	<u>665,632</u>	<u>159,913</u>	<u>825,545</u>
Exploration costs:			
Balance, beginning of year	<u>2,285,203</u>	<u>1,918,570</u>	<u>4,203,773</u>
Assaying	20,071	12,623	32,694
Geological fees	88,787	5,510	94,297
Engineering	52,904	-	52,904
Surveying	-	19,750	19,750
	161,762	37,883	199,645
Exploration costs written off	-	-	-
Exploration costs recovered	-	-	-
Balance, end of year	<u>2,446,965</u>	<u>1,956,453</u>	<u>4,403,418</u>
Total costs	<u>\$ 3,112,597</u>	<u>\$ 2,116,366</u>	<u>\$ 5,228,963</u>

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

2011	Canada	Finland	December 31, 2011
Acquisition costs:			
Balance, beginning of year	\$ 644,628	\$ 154,090	\$ 798,718
Additions	13,190	25,594	38,784
Disposals	<u>-</u>	<u>(39,349)</u>	<u>(39,349)</u>
Balance, end of year	<u>657,818</u>	<u>140,335</u>	<u>798,153</u>
Exploration costs:			
Balance, beginning of year	<u>2,285,513</u>	<u>1,322,785</u>	<u>3,608,298</u>
Assaying	3,091	132,203	135,294
Geological fees	-	54,714	54,714
Surveying	-	253,747	253,747
Drilling	<u>-</u>	<u>406,697</u>	<u>406,697</u>
	3,091	847,361	805,452
Exploration costs written off	-	(251,576)	(251,576)
Exploration costs recovered	<u>(3,401)</u>	<u>-</u>	<u>(3,401)</u>
Balance, end of year	<u>2,285,203</u>	<u>1,918,570</u>	<u>4,203,773</u>
Total costs	<u>\$ 2,943,021</u>	<u>\$ 2,058,905</u>	<u>\$ 5,001,926</u>

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyencing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Finland Properties

Kettukuusikko Property

The Company has six mineral claims located in Finland known as the Kettukuusikko Gold Deposit. Any future commercial production from the property covered by this agreement is subject to a 2% Net Smelter Returns royalty ("NSR"). Four of the claims have expired or expired subsequent to December 31, 2012 and applications for renewal have been filed with the Government of Finland. The other two claims expire at various dates through November 2013.

The Company entered into an agreement with Royal Gold, Inc. ("Royal Gold") pursuant to which Royal Gold funded exploration expenditures on the Kettukuusikko Gold Prospect sufficient to earn a 2% NSR on the prospect and copies of the exploration data.

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Finland Properties (cont'd...)

Other Properties

The Company has certain other mineral claims located in the Republic of Finland.

The Company agreed to grant Royal Gold a 2% NSR on any new properties acquired in the Republic of Finland prior to November 4, 2008. Two such claim groups (Marskinkuusikko 1 – 3 and Naakenavaara 1 -4) were acquired and so Royal Gold holds a 2% NSR on both.

With agreement from Royal Gold, the Company relinquished title to the Marskinkuusikko property in 2011.

British Columbia Properties

Thor Property

The Company acquired a 100% interest in certain mineral rights entitled the Thor Property located in the Revelstoke mining district of British Columbia, Canada.

The Company has acquired additional contiguous mineral claims by staking and making certain payments.

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

- a) Paid or accrued professional fees of \$28,292 (2011 - \$32,600) and share issue costs of \$25,400 (2011 - \$18,900) to a corporation controlled by a director.
- b) Paid or accrued deferred exploration costs of \$57,505 (2011 - \$111,886) to a company controlled by a director.
- c) Paid or accrued consulting and other costs of \$38,049 (2011 - \$40,074) to companies controlled by directors.
- d) Paid or accrued professional fees of \$15,000 (2011 - \$17,500) to a director.
- e) Borrowed \$nil (2011 - \$100,000) from a company controlled by a director (Note 9). Interest of \$6,458 (2011 - \$1,250) has been accrued on this loan as at December 31, 2012.

Included in accounts payable and accrued liabilities is \$91,851 (2011 - \$70,231) due to directors and companies controlled by directors of the Company. Amounts due to related parties are due to a director and companies controlled by directors of the Company and are non-interest bearing and have no specific terms of repayment.

Key management personnel include executive officers and directors of the Company. Compensation paid to key management personnel consists of share-based payments of \$159,000 for the year ended December 31, 2012 (2011 - \$Nil).

9. LOAN PAYABLE

The loan payable is due to a corporation controlled by a director of the Company (Note 8). It is unsecured, bears interest at a rate of 5% per annum and is repayable on demand or upon the Company completing one or more financings totalling at least \$2,000,000. At the discretion of the lender, the loan and any unpaid interest thereon may be converted into common shares of the Company at the minimum price per share provided for under the rules and policies of the TSX Venture Exchange. Such conversion would be subject to approval by the TSX Venture Exchange.

10. CAPITAL STOCK AND SHARE-BASED PAYEMENT RESERVE

Authorized

Unlimited common class shares without par value.
Unlimited class A preferred shares with a par value of \$1.

Private placements

During fiscal 2011, the Company:

- a) Issued 3,000,000 common shares at a price of \$0.20 per share for gross proceeds of \$600,000.
- b) Issued 500,000 units at a price of \$0.20 per unit for gross proceeds of \$100,000. Each unit consisted of one common share and one-half (1/2) of a purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.40 until September 26, 2012.
- c) Issued 175,000 units at a price of \$0.20 per unit for gross proceeds of \$35,000. Each unit consisted of one common share and one-half (1/2) of a purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.40 until October 20, 2012.

During fiscal 2012, the Company:

- a) Issued 3,456,668 units at a price of \$0.15 per unit for gross proceeds of \$518,500 of which \$30,000 had been received in fiscal 2011. Each unit consisted of one common share and one common share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of \$0.25 until February 21, 2014.
- b) Issued 200,000 units at a price of \$0.15 per unit for gross proceeds of \$30,000. Each unit consisted of one “flow-through” share and one share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of \$0.25 until June 28, 2014. If the Company’s market closing price is greater than \$0.45 for a period of 20 consecutive days, the Company may give notice that these warrants expire 30 days from such notice.
- c) Issued 563,334 units at a price of \$0.15 for gross proceeds of \$84,500. Each unit consisted of one “flow-through” share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of \$0.30 until October 22, 2013.

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

10. CAPITAL STOCK AND SHARE-BASED PAYEMENT RESERVE (cont'd...)

Private placements (cont'd...)

- d) Issued 70,000 units at a price of \$0.15 for gross proceeds of \$10,500. Each unit consisted of one “flow-through” share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of \$0.30 until December 4, 2013.
- e) Issued 455,000 units at a price of \$0.11 per unit for gross proceeds of \$50,050. Each unit consisted of one common share and one common share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of \$0.15 until December 19, 2014.

Settlement of debt

During fiscal 2011, the Company settled debts to various related parties of \$94,759 through the issuance of 631,727 common shares.

Stock options and warrants

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company’s common stock at the date of grant, subject to a minimum price of \$0.10. The options can be granted for a maximum term of 5 years and vest at the discretion of the Board of Directors.

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options (including Finders’ Options)	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2010	7,528,000	\$ 0.28	2,598,500	\$ 0.29
Granted	337,500	0.40	-	-
Expired/cancelled	<u>(2,528,000)</u>	0.25	<u>(341,000)</u>	0.23
Outstanding, December 31, 2011	5,337,500	0.31	2,257,500	0.29
Granted	4,428,335	0.24	1,650,000	0.11
Expired/cancelled	(5,337,500)	0.31	(657,500)	0.42
Exercised	-	-	-	-
Outstanding, December 31, 2012	4,428,335	\$ 0.24	3,250,000	\$ 0.19
Number currently exercisable	4,428,335	\$ 0.24	3,250,000	\$ 0.19

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

10. CAPITAL STOCK AND SHARE-BASED PAYEMENT RESERVE (cont'd...)

The following options and warrants to acquire common shares of the Company were outstanding at December 31, 2012:

	Number of Shares/Units	Exercise Price	Expiry Date
Options	500,000	\$0.20	October 15, 2013
	500,000	0.21	February 10, 2015
	600,000	0.30	December 31, 2015
	900,000	0.13	April 27, 2017
	750,000	0.10	December 24, 2017
Warrants	3,456,668	0.25	February 21, 2014
	200,000	0.25	June 28, 2014
	281,667	0.30	October 22, 2013
	35,000	0.30	December 4, 2013
	455,000	0.15	December 19, 2014

Stock-based compensation

During fiscal 2012, the Company granted 1,650,000 (2011 – Nil) options to directors. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations. Total stock-based compensation recognized in the statement of operations during fiscal 2012 was \$159,000 (2011 - \$Nil) and the weighted average fair value per option granted was \$0.10 (2011 - \$Nil). This amount was also recorded as share-based payment reserve on the statement of financial position.

The following weighted average assumptions were used for the valuation of stock options:

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.53%	-
Expected life of options	3 years	-
Annualized volatility	171%	-
Dividend rate	0%	-
Forfeiture rate	0%	-

11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of mineral properties.

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

11. SEGMENTED INFORMATION (cont'd...)

The Company's capital assets are located in the following geographic locations:

	December 31, 2012	December 31, 2011
Finland	\$ 2,116,366	\$ 2,058,905
Canada	<u>3,160,256</u>	<u>2,990,680</u>
	<u>\$ 5,276,622</u>	<u>\$ 5,049,585</u>

12. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, loan payable, due to related parties and accounts payable and accrued liabilities approximate their carrying value, due to the short-term nature of these instruments. The Company's other financial instruments, cash and marketable securities, under the fair value hierarchy are based on level 1 quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in these financial instruments included in receivables is remote, because these instruments are due primarily from government agencies and cash is held with reputable financial institutions.

12. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (cont'd...)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2012, the Company had a cash balance of \$318,457 (2011 – \$162,809) to settle current liabilities of \$300,435 (2011 – \$421,028). All of the Company's financial liabilities are subject to normal trade terms. Management is actively pursuing options to enable it to meet its current obligations as they become due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash balances and a loan payable bearing interest at 5% per annum. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions when deemed appropriate. Management periodically monitors such investments and debts and makes adjustments as necessary but does not believe interest rate risk to be significant.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars or Euros. Management believes the risk is not currently significant as only a small portion of these assets and liabilities as at December 31, 2011 and 2012 are denominated in United States Dollars or Euros.

c) Price risk

The Company is not a producing entity so is not directly exposed to fluctuations in commodity prices. The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition and exploration of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

12. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (cont'd...)

Capital management (cont'd...)

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2012 included:

- a) Accruing mineral property expenditures of \$58,541 and \$25,400 in share issuance costs through accounts payable and accrued liabilities as at December 31, 2012.

Significant non-cash transactions during the year ended December 31, 2011 included:

- b) Accruing mineral property expenditures of \$205,044 and \$14,249 in share issuance costs through accounts payable and accrued liabilities as at December 31, 2011.
- c) Settlement of accounts payable and accrued liabilities of \$94,759 through the issuance of 631,727 common shares.

14. INCOME TAXES

- a) A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2012	2011
Loss before income taxes	\$ (363,766)	\$ (528,767)
Expected income tax recovery	\$ (91,000)	\$ (140,000)
Non-deductible expenditures	38,000	44,000
Change in tax rates, foreign exchange and other items	(1,000)	87,000
Share issue costs	(8,000)	-
Change in unrecognized deductible temporary differences	11,000	(33,509)
Net deferred tax recovery	\$ (51,000)	\$ (42,509)

TARANIS RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2012

14. INCOME TAXES (cont'd...)

b) Significant components of the Company's deferred tax assets and liabilities are as follows:

	2012	2011
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ (1,060,000)	\$ (1,054,000)
Losses available for future periods	847,000	786,000
Other items	<u>21,000</u>	<u>25,000</u>
Net deferred tax liability	<u>\$ (192,000)</u>	<u>\$ (243,000)</u>

b) Significant components of the Company's temporary differences and unused tax losses are as follows:

	2012	Expiry date	2011
Losses available for future periods	\$ 1,958,000	2015-2032	\$ 1,900,000
Exploration and evaluation assets	450,000	No expiry date	452,000
Marketable securities	-	No expiry date	74,000
Allowable capital losses	32,000	No expiry date	-