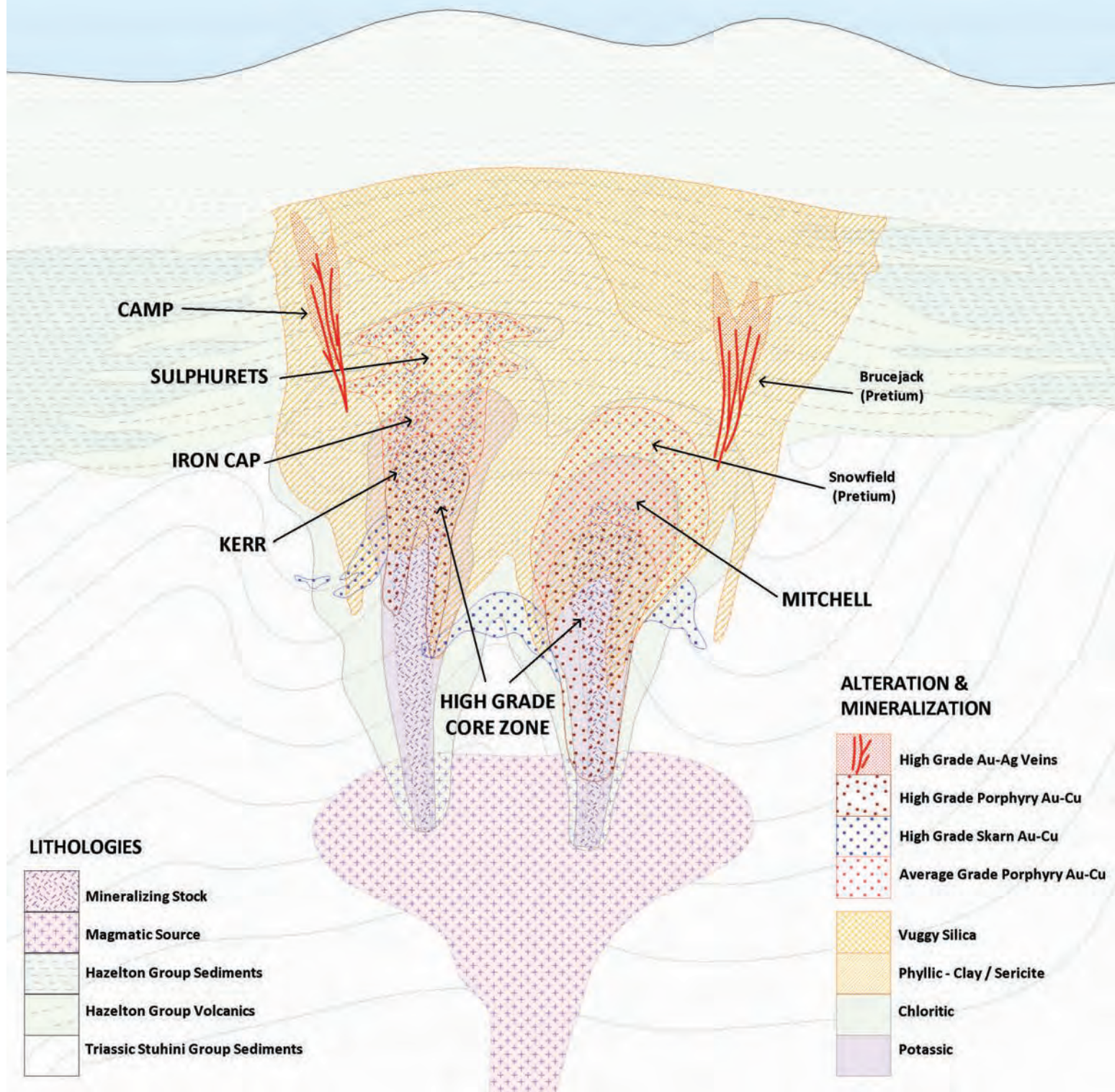




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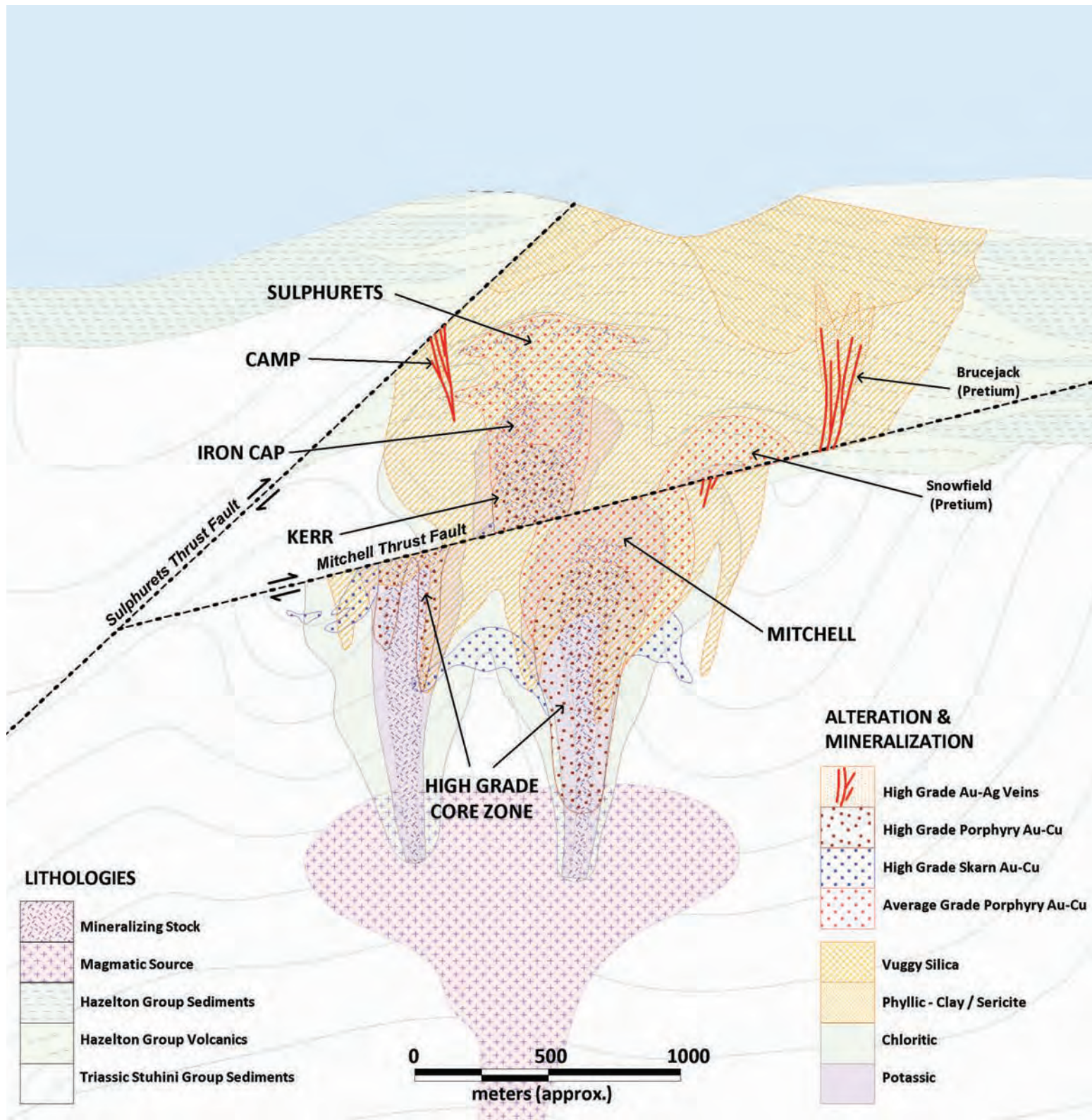
SEABRIDGE GOLD



STAGE I – Formation of Multiple Ore Deposits

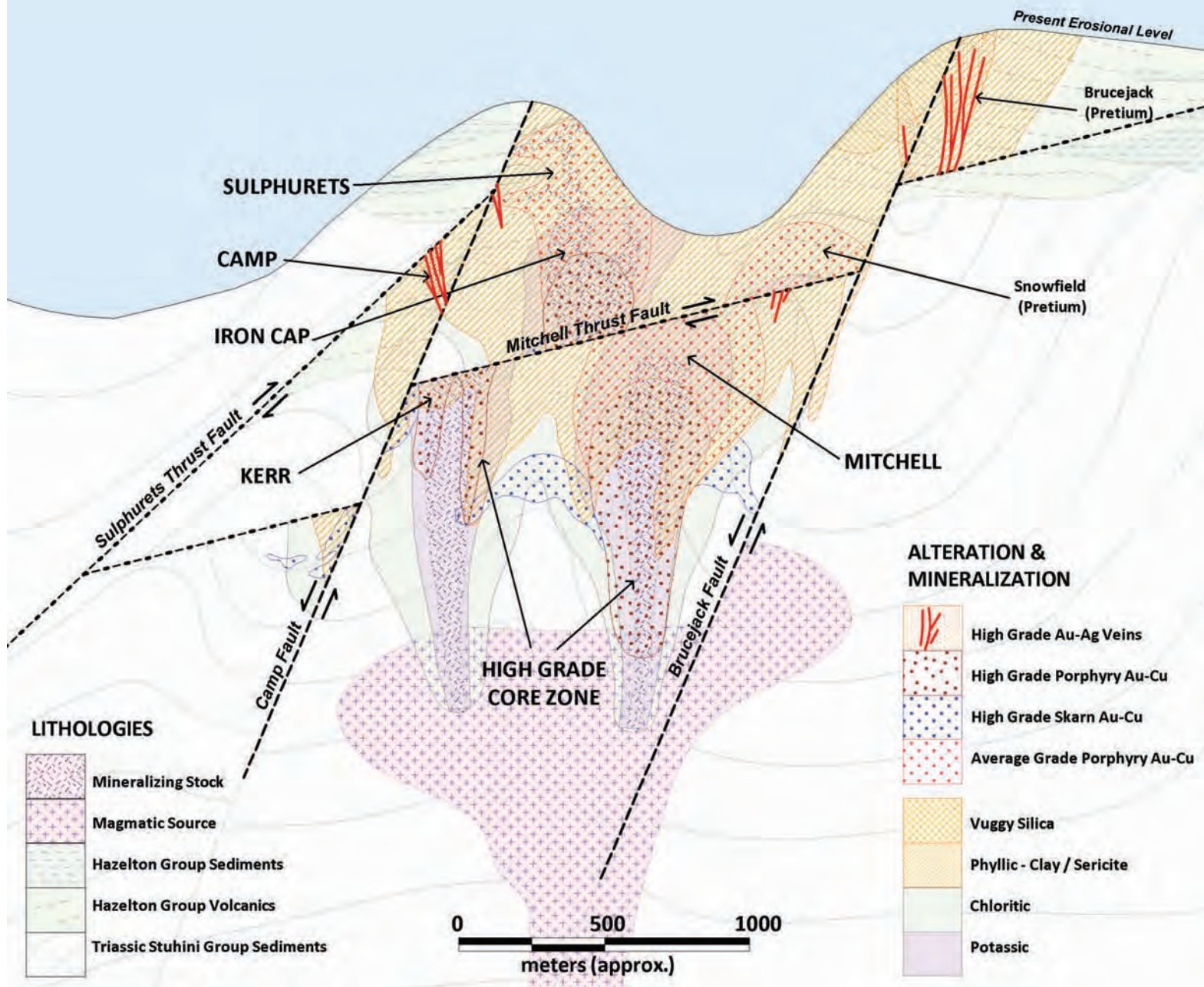
The KSM and Pretium deposits were born in what is known as an island arc environment about 190 million years ago. Arc magmas are derived from partial melting of hydrated rocks which have been drawn down to higher pressure and temperature conditions during subductive tectonic plate collisions. The relatively buoyant magmas rise up along faults, dissolving and concentrating metals and sulfur in hydrous fluids and gases. The pressurized, metal rich fluids and gases circulate through the solidifying magma and host rocks, depositing metals and altering minerals, producing the typical “porphyry” zonation patterns seen in KSM’s deposits which reflect hotter conditions in the center transitioning outward to cooler surroundings. If the magma approaches or breaches the surface, as at KSM, the lower pressure and temperature conditions and the presence of ground water may result in epithermal gold-silver deposits—either low grade disseminated ones or high grade vein deposits such as Brucejack and the Camp zone.

**For references, see page 1.*



STAGE II - Compression, Thrust Faulting, Erosion

The period of ore deposit formation is relatively short, and eventually tectonic conditions change, and the systems are either eroded away, or, as in the case of KSM, are buried and preserved by volcanic and sedimentary rocks. During this period, the tectonic plate hosting KSM was forced northward, fragmented and squeezed or compressed against the older and ridged North American plate. In northwestern British Columbia, the compressive processes resulted in folding and thrust faulting which pushed deeper, older rocks above younger rocks. These mountain building episodes uplift whole regions and promote erosion.



Stage III – Extension, Normal Faulting, Erosion

Tectonic processes are dynamic and, over time, compressive conditions often reverse to extensional conditions where plates are drawn apart by opposing forces. This is typically accommodated by development of normal faults and grabens which allow the plate to “stretch out”. The deformational history at KSM has resulted in a rearrangement of the original pattern of deposits; the initial order of deeper, porphyry-style, stockwork and vein controlled gold-copper mineralization transitioning upward into epithermal style, vein and disseminated gold mineralization is now reversed. This complicated geological architecture has dramatic consequences for exploration targeting. The presence of undiscovered, “blind” deposits beneath faults in other mining districts with multiple magma sources and deformational histories similar to KSM, such as Oyu Tolgoi, Pebble, Resolution, and Grasberg, demonstrates the sizeable potential rewards open to a flexible and persistent exploration strategy. In 2013, Seabridge plans to drill several promising targets which have characteristics of high grade core zones (see Exploration Programs on page 5).

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Corporate Overview

Seabridge Gold's resource base of gold, copper and silver is one of the world's largest. Our principal projects are located in Canada. Our objective is to grow resource and reserve ownership per share. Our risk-reducing strategy: acquire North American deposits; expand them through exploration; move them to reserves through engineering; and sell or joint venture them to established producers for mine construction and operation.

Stock Exchange Trading Symbols

"SEA" on Toronto Stock Exchange

"SA" on New York Stock Exchange

Annual General Meeting of Shareholders

Wednesday, June 26, 2013, 4:30 p.m. EDT

The Albany Club, 91 King Street East, Toronto, Ontario M5C 1G3, Canada

Forward-Looking Statements

We are making statements and providing information about our expectations for the future which are considered to be forward-looking information or forward-looking statements under Canadian and United States securities laws. These include statements regarding the proposed production scenarios in respect of our principal projects and our view of the gold market. We are presenting this information to help you understand management's current views of our future prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by securities laws. This information is based on a number of material assumptions, and is subject to a number of material risks, which are discussed in our annual MD&A contained in this document under the headings "Forward-Looking Statements" and "Risks and Uncertainties". We also refer shareholders to the more comprehensive discussion of forward-looking information in our Annual Information Form filed on SEDAR at www.sedar.com and our Annual Report on Form 40-F filed on EDGAR at www.sec.gov/edgar.shtml.

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Anatomy of porphyry-related Au-Cu-Ag-Mo mineralised systems: Some exploration implications - Greg Corbett. For: Australian Institute of Geoscientists North Queensland Exploration Conference, June 2009, 13 pages

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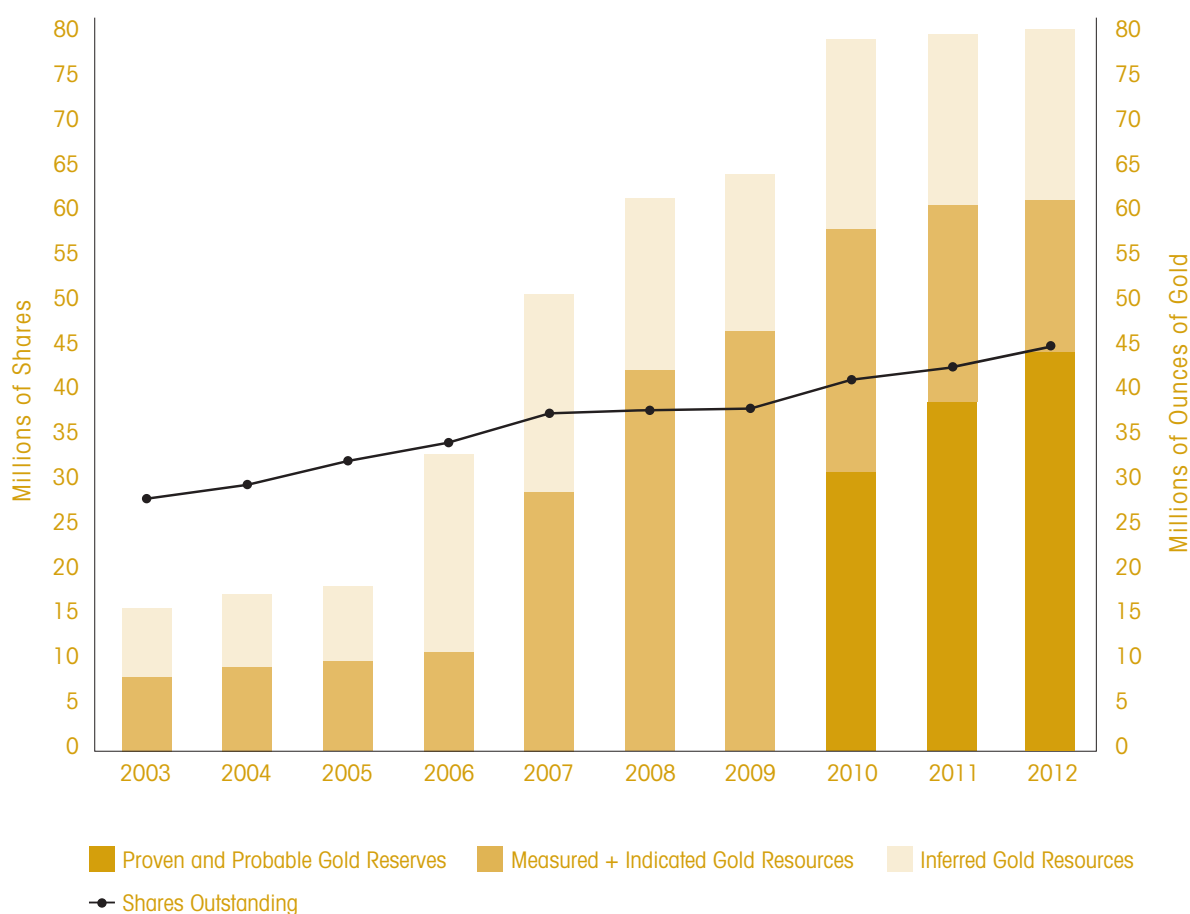
CEO'S REPORT TO SHAREHOLDERS

Staying the Course, Principles Intact

Those of you who have followed our progress over the years will know that one of our guiding principles is to continue to grow and upgrade our gold reserves and resources while minimizing equity dilution. I am happy to report that, for the 10th straight year, Seabridge has increased our shareholders' exposure to gold on a per share basis. During 2012, we added 6.5 million ounces of proven and probable gold reserves.

To continue this trend of growing gold ownership per share, Seabridge completed two equity financings in November and December 2012 totaling \$42 million, consisting of 2.1 million shares sold at a significant premium to the market price at the time. These funds will be put to use in 2013 on exciting exploration programs at both KSM and Courageous Lake designed to add gold resources at grades significantly above existing reserves while also, once again, increasing resources on a per share basis.

Gold Reserves and Resources Continue to Grow Faster than Shares Outstanding



Engineering and Permitting Programs

KSM – OUR THIRD PFS MAKES IMPORTANT IMPROVEMENTS ECONOMICALLY AND ENVIRONMENTALLY

In May 2012, Seabridge announced the results of an updated National Instrument 43-101-compliant Preliminary Feasibility Study (“PFS”) for its 100% owned KSM project in northern British Columbia, Canada. The updated PFS improves on the design from the PFS completed in 2011.

After completion of the 2011 PFS, Seabridge continued to host frequent working group sessions with federal and provincial regulators, aboriginal groups and their technical consultants to review the project in detail. In general, feedback on the project was positive. This feedback was used to make the following design changes which were incorporated into the 2012 PFS:

- Shifting from open pit to underground block caving mining in the later years for the Mitchell deposit and also block caving the Iron Cap deposit. Underground mining is expected to reduce waste rock storage by more than two billion tonnes, significantly reducing the potential environmental impact;
- Re-routing proposed access from Highway 37 to the proposed process facility and tailings management area to avoid potential impact on fisheries;
- Relocating the fine crushing and grinding facilities from the Mitchell plant site to the Treaty site and conveying ore through the Mitchell-Treaty tunnel rather than a slurry transport system, thereby reducing both operational risks in the Mitchell valley and water flows between the mine and mill;
- Isolating and lining a portion of the proposed tailings management facility to contain the tailings from the precious metals carbon leach circuit, which uses cyanide. Although such a lining is not required under existing regulations, Seabridge has chosen to design its tailings management facility to the standards of the International Cyanide Management Code to accommodate feedback from Treaty and First Nations, regulators and other stakeholders. Most major international gold mining companies now voluntarily adhere to this Code;
- Relocating all discharges from the tailings management facility to protect sensitive fish habitats;
- Implementing a state-of-the-art water treatment strategy to maximize environmental protection; and,
- Removing planned surface infrastructure associated with the Mitchell Treaty Tunnel and placing it underground to minimize surface disturbance and avoid disruption to wildlife.

In addition to the above noted design changes, the 2012 PFS also incorporates updated capital and operating cost estimates and metal price assumptions within the context of the then current economic environment. Although estimated initial capital costs of US\$5.3 billion and unit operating costs of \$13.64 per tonne increased from 2011 (up 13% and 3% respectively), base case economic projections in the 2012 PFS are greatly superior to the earlier study due to an expansion of throughput by 10,000 tonnes per day (“tpd”) to 130,000 tpd and higher three-year trailing average metal prices. Comparing the estimates from the 2012 PFS to the 2011 version:

- Net project cash flow (pre-tax) increased by 25% to \$20.3 billion;
- Net present value at a 5% discount rate (pre-tax) increased by 74% to \$4.5 billion;
- Internal rate of return (pre-tax) increased by 25% to 11.5%;
- Payback was reduced by six months to 6.2 years or less than 11% of the project’s mine life; and
- Life-of-mine average cash costs per ounce of gold produced (after by-product credits) fell to US\$148 per ounce from US\$231.

The 2012 PFS envisages a combined open pit/underground block caving mining operation that is scheduled to operate for more than 50 years. During the initial 25 years of mine life, all ore would be mined by open pit methods with the mill scheduled to operate at an average of 130,000 tpd. As mining at the Mitchell deposit switches to block caving in year 26,

daily production would decline to an average of approximately 90,000 tpd over the remaining 30 years of mine life. Over the more than 50-year mine life, ore would be fed to a flotation mill which would produce a combined gold/copper/silver concentrate for transport by truck to the nearby deep-water sea port at Stewart, B.C. for shipment to Pacific Rim smelters. Extensive metallurgical testing confirms that KSM can produce a clean concentrate with an average copper grade of 25%, making it readily saleable. A separate molybdenum concentrate and gold-silver dore would be produced at the KSM processing facility.

Major gold mining companies are now reporting “all-in” costs per ounce produced which more accurately reflect the economics of the gold mining business. For 2013, these all-in costs for the majors typically range from **\$1,000 to \$1,200** per ounce. The base case of the 2012 PFS estimates that all-in costs for KSM, including start-up capital, sustaining capital, operating costs and closure costs total **\$598** per ounce which would make KSM accretive to any major gold producer. The key advantages KSM enjoys are very low power costs, the ability to spread its high start-up capital requirements efficiently over a very long mine life and substantial base metal by-product credits.

KSM – ENVIRONMENTAL ASSESSMENT/ENVIRONMENTAL IMPACT STATEMENT FILED AND UNDER REVIEW

The KSM Project is undergoing a joint environmental assessment as mandated by the Canadian Environmental Assessment Act and the British Columbia Environmental Assessment Act. Seabridge’s aim from the beginning has been to put forward for permitting a project design that reflects the coordinated and prior involvement and extensive input from aboriginal communities, the public and both provincial and federal regulators. This process has allowed Seabridge to address many of the possible concerns about KSM before applying for permits. Analysis of development alternatives is a key component of the Canadian environmental assessment process. Accordingly, project design changes were incorporated into the 2012 PFS based on the feedback and dialogue with the regulators, Treaty and First Nations and potential joint venture partners. The 2012 PFS then provided the basis for the Environmental Assessment/Environmental Impact Statement (“EA/EIS”) which was filed in February 2013.

The EA/EIS filing consisted of 40 fully indexed, linked and hyperlinked flash memory sticks and 10 hard copies of the document. The submission was provided to the KSM Project Regulatory Working Group members including representatives of the Nisga’a Nation, First Nations, provincial and federal regulatory authorities, municipal officials and U.S. state and federal representatives. The document is one of the largest and most comprehensive ever submitted for a mining project in Canada, and contains over 30,000 pages of text, tables, figures and maps.

Seabridge anticipates that the KSM will receive a thorough and detailed review managed by the province and the federal government. The process should be completed by mid-2014. We are confident that the review process will confirm our assertion that the KSM Project is a well-designed, environmentally responsible project which is both technically and economically feasible. (See the inside back cover for a description of the EA/EIS process and timetable.)

COURAGEOUS LAKE – NEW GOLD RESERVES OF 6.5 MILLION OUNCES

In July, Seabridge announced the results of its initial National Instrument 43-101-compliant PFS for its 100%-owned Courageous Lake project located in Canada’s Northwest Territories. The study demonstrates that Courageous Lake would be a viable project at the current gold price while also offering substantial leverage to higher gold prices.

The Courageous Lake PFS proposes a single open pit mining operation with on-site processing. A base case scenario was developed for the project incorporating an estimated 91.1 million tonnes of proven and probable reserves at an estimated average grade of 2.20 grams of gold per tonne feeding a 17,500 tpd operation (6.1 million tonnes per year

annual average throughput). This yields a projected 15-year operation with average estimated annual production of 385,000 ounces of gold at a projected life-of-mine average cash operating cost of US\$780 per ounce (US\$674 in years one through five). Start-up capital costs for the project are estimated at US\$1.52 billion, including a contingency of US\$187 million. Estimated all-in costs including start-up capital, sustaining capital, operating costs and closure costs total \$1,123 per ounce for the PFS base case, in line with current total all-in costs reported by the major gold producers.

At a gold price of US\$1,384 per ounce (the three-year trailing average gold price at July 3, 2012), the Courageous Lake base case has an estimated US\$1.5 billion pre-tax net cash flow, a US\$303 million net present value at a 5% discount rate and an internal rate of return of 7.3%. This base case uses metal pricing consistent with the requirements of securities regulators. At a gold price of US\$1,618 (the spot price on July 3, 2012), the estimated total pre-tax net cash flow nearly doubles that of the base case to US\$2.8 billion, the estimated net present value at a 5% discount rate more than triples to US\$1.1 billion and the estimated internal rate of return increases to 12.5%. To illustrate the project's leverage to the gold price, using the 2011 gold price high of \$1,925 per ounce, pre-tax net cash flow would reach \$4.5 billion for a net present value at a 5% discount rate of \$2.1 billion and an internal rate of return of 18.7%.

The PFS also identified several opportunities that could significantly improve the overall project economics. First, the current design incorporates a combination of diesel and wind generated power resulting in a projected power generation cost of Cdn\$0.184 per kilowatt hour which is nearly 40% lower than power generation by diesel fuel alone. Seabridge is evaluating nearby potential hydro-electric sources which would also provide a reliable, sustainable and lower-cost clean energy source and significantly reduce the requirement for diesel fuel at the site. Second, access to the project under the current design is by winter road which is limited to less than three months per year. It is during this period that almost all of the project's supplies are transported to site. The Tibbitt to Contwoyto Winter Road Joint Venture proposes extending the winter road seasonal use by at least another month with a 150 km extension from the permanent road access at Tibbitt Lake to Lockhart camp. While this would result in some reduction in both operating and capital costs for Courageous Lake, an all-season access road from the Bathurst Inlet would provide considerably more benefit to Courageous Lake economics. Seabridge will continue to investigate these options as the project moves forward.

Exploration Programs

KSM GAME CHANGER – A VERY GOOD PROJECT COULD GET VERY MUCH BETTER

In 2012, Seabridge's exploration team set out to search for higher temperature core zones that typically concentrate metals within very large porphyry systems such as KSM. Generally, these core zones have grades which are a multiple of those in the upper parts of the porphyry system where KSM's reserves are now found. Evidence compiled by Seabridge's team of geologists suggests that one or more core zones have been preserved intact on the KSM claims in close proximity to the known deposits and at a reasonable depth. Several targets were selected based upon geochemical analysis, mineralogy, metal distributions and geophysical surveys. (See the inside front cover for a better understanding of KSM's geologic model.)

In 2012, a total of 19,813 meters of core drilling was completed at KSM resulting in: (1) the discovery of the Deep Kerr high grade zone; (2) the identification of three more potential high grade zones at McQuillan, Iron Cap and North Mitchell; and (3) the discovery of an unexpected high grade epithermal gold deposit at the Camp Zone.

Of most significance was the discovery of the Deep Kerr, which appears to be the upper portion of a core zone below the known Kerr deposit. Drill hole K-12-21 intersected 473 meters grading 0.90% copper and 0.31 grams per tonne gold, the best intercept ever drilled at KSM.

Key observations of the Deep Kerr discovery include:

- Alteration intensity increases with depth. Favorable potassic alteration is present and the chalcopyrite-to-pyrite ratio increases in the deeper parts of Kerr, suggesting that we are approaching the temperatures that would be associated with a high grade core zone;

- Gold and copper grades show more complete overlap at depth, increasing in tandem, another key indicator of a high grade core zone. At the periphery of the Deep Kerr zone, intercepts of gold-only mineralization are thicker than at shallower depths, and these have potential to enhance overall gold grades;
- The down dip mineralized zones encountered consist of unusually thick sections with some of the highest metal values encountered to date at KSM;
- The geometry from the existing resource model projected to these new results down dip supports a potential resource expansion in the range of 500 million tonnes. Kerr now has geological continuity down dip of more than 500 meters which is likely to grow;
- At depth, the Deep Kerr appears to be slightly offset by a post-mineral fault which took hole K-12-21 out of the high grade material but Seabridge's geological team believes that the displaced high grade zone continues down dip; and
- The Deep Kerr is above, and probably accessible from, the Sulphurets valley floor by way of an inclined tunnel, raising the potential for a lower cost block caving option which would also have significant environmental benefits.

In 2013, Seabridge plans to undertake a 30,000 meter, \$15 million exploration program at KSM. Priorities for the 2013 program include: (1) additional drilling at Deep Kerr aimed at confirming the core zone hypothesis and generating a high quality resource which could have a significant positive economic impact on the KSM project; (2) testing the deep potential of the McQuillan and Iron Cap core zone targets, which are ideally located for ease of access and integration into KSM's project design; and (3) further testing of the Camp Zone for potential bonanza grades at depth (See inside front cover for KSM exploration schematics.)

COURAGEOUS LAKE – SECOND DEPOSIT DISCOVERED

The 2012 exploration program at Courageous Lake was focused on looking for the next deposit along Seabridge's 53 kilometer Matthews Lake Greenstone Belt which once hosted two high grade underground gold mines and has gold occurrences along its entire length. The result was the discovery of a second deposit, Walsh Lake.

The Walsh Lake target is located about 10 kilometres south of the FAT deposit where Seabridge has developed a 6.5 million ounce proven and probable gold reserve. The north part of this target area is connected by a road network between the FAT deposit and the historical high grade Tundra Gold Mine. Walsh Lake is believed to be a series of structural zones, parts of which are on strike with the deposits exploited in the Tundra Gold Mine.

The 2012 program at Walsh Lake completed 23 core holes totaling 10,211 meters. The results exceeded expectations with 22 of 23 holes returning significant gold values including 26 intercepts above 15 grams per tonne (approximately half an ounce per tonne). The Walsh Lake zone now has a strike length of 850 meters and remains open to the north, up dip and at depth.

A 2013 in-fill drill program is now underway at Walsh Lake which is designed to provide sufficient data to support an initial resource estimate for the deposit. Walsh Lake could make a significant contribution to the economics of the overall Courageous Lake project. With its location and ease of access, processing of higher grade material from Walsh Lake first has the potential to accelerate payback of capital as well as extend projected mine life.

Report Card on 2012 Objectives:

At Seabridge, we start every year with a set of clear, published objectives to enhance shareholder value. At year end, our board evaluates senior managers against these objectives. In last year's annual report, six objectives were set for 2012. Here is how we did:

- *Complete a PFS at Courageous Lake, thereby defining the project's first proven and probable reserves.*

A PFS was completed in July, estimating proven and probable reserves of 6.5 million ounces of gold, an average annual production of 385,000 ounces at an average cost of \$780 per ounce and a mine life of 15 years.

- *Update the KSM PFS by incorporating enhanced engineering and design changes.*

An updated PFS was released in May reporting reserves of 38.2 million ounces of gold, 9.9 billion pounds of copper, 191 million ounces of silver and 213 million pounds of molybdenum. The new PFS included engineering changes designed to increase the production rate, facilitate permitting and enhance economics. Estimated NPVs, IRRs and capital paybacks substantially improved over the 2011 PFS. Estimated base case life of mine cash operating costs fell significantly to \$141 per ounce of gold produced.

- *Drill three new exploration targets at Courageous Lake and conduct geophysical programs over the 53 kilometer long greenstone belt.*
- Three targets (North CL, West CL and Walsh Lake) were drilled during 2012. Of the three, Walsh Lake holds the most promise of delivering a new, high grade resource that could significantly enhance Courageous Lake's economics.

- *Explore for potential high grade core zones on our KSM property which have the potential to deliver a large deposit with grades significantly above current reserves.*

Of the targets drilled in 2012, Deep Kerr emerged as a probable high grade core zone discovery with Iron Cap and McQuillan showing some promise as additional core zone discoveries.

- *Complete KSM's EA/EIS for submission to the federal and provincial regulatory authorities, Treaty and First Nations and the general public.*

Filing of the EA/EIS was completed in February 2013, about two months later than planned, and is now under regulatory review.

- *When market conditions improve, advance KSM joint venture discussions with senior companies that have the technical and financial resources to build and operate the project.*

Market conditions have not improved for large, high capital cost projects over the past year. We cannot change market conditions but we can enhance the quality of the KSM asset. We are confident that submission of the EA/EIS application and delineation of new, higher grade resources will facilitate a joint venture on favorable terms when market conditions are more positive. Major companies need major projects to maintain their production levels, especially projects that are capital efficient with long mine lives in politically friendly jurisdictions.

And for 2013...

For this year, our overall objective is to continue to move towards a joint venture agreement on the KSM project with a suitable partner on terms advantageous to Seabridge, recognizing that market conditions and other external factors may make such a joint venture impracticable at any given time. We believe that achieving this objective is the single most effective way to reward our shareholders.

The steps to be taken in 2013 toward achieving this goal are:

1. Support the EA/EIS application to further de-risk the KSM project. A project that has received environmental approvals is certain to be more attractive to a major producer;
2. Complete a drill program at the Deep Kerr which enables the calculation of an initial resource estimate. The much higher copper grades we expect at Deep Kerr could generate joint venture possibilities with large base metal producers in competition with gold producers;

3. Drill test additional core zone targets at KSM. Discovery of additional high grade zones is likely to enhance competitive tensions among prospective joint venture partners;
4. Enhance the value of our Courageous Lake asset by completing a drill program in 2013 which enables the calculation of an initial resource estimate for the Walsh Lake target; and
5. Increase gold ownership per common share with new resource estimates for both KSM and Courageous Lake.

The Gold Market

Please note that this information expresses the views and opinions of Seabridge Gold management and is not intended as investment advice. Seabridge Gold is not licensed as an investment advisor.

As we write this, the gold price is weak and sentiment has never been more negative. Measures such as the Daily Sentiment Indicator have recently hit lows last seen in 1994 and 1997 while MarketVane's bullish consensus and Hulbert's HGNSI index of gold portfolio managers have broken to lows below those recorded in 2008. The major banks have cut their price forecasts and some have declared an end to the bull market for gold which has tallied 11 straight years of higher closing prices. Could all these people be wrong?

Meanwhile, equity markets have lately gone from one new high to another, especially in the U.S. As we have noted previously, gold's performance tends to be the inverse of paper assets, which appear to be back in the ascendency. The bullish consensus on stocks has never been higher. Could all these people be right?

The world's central banks are printing their currencies in absolutely unprecedented quantities. This policy has historically helped gold, but not this time. The excess liquidity is currently regarded as favorable for equities and also bonds which the central banks and/or their commercial banking familiars are buying with all the newly created currency. A strong bond market has made the equities look even more attractive. Price inflation doesn't seem to be a threat and we are continually told that as soon as it is, the central banks will start tightening, reducing their balance sheets and raising interest rates. Europe is no longer an issue the way it was in 2011 when gold was setting new highs; the European Central Bank ("ECB") has promised to do whatever it takes, print as much as needed, as long as the recipients sign on to austerity programs designed in Germany. So, in light of these developments, who needs gold?

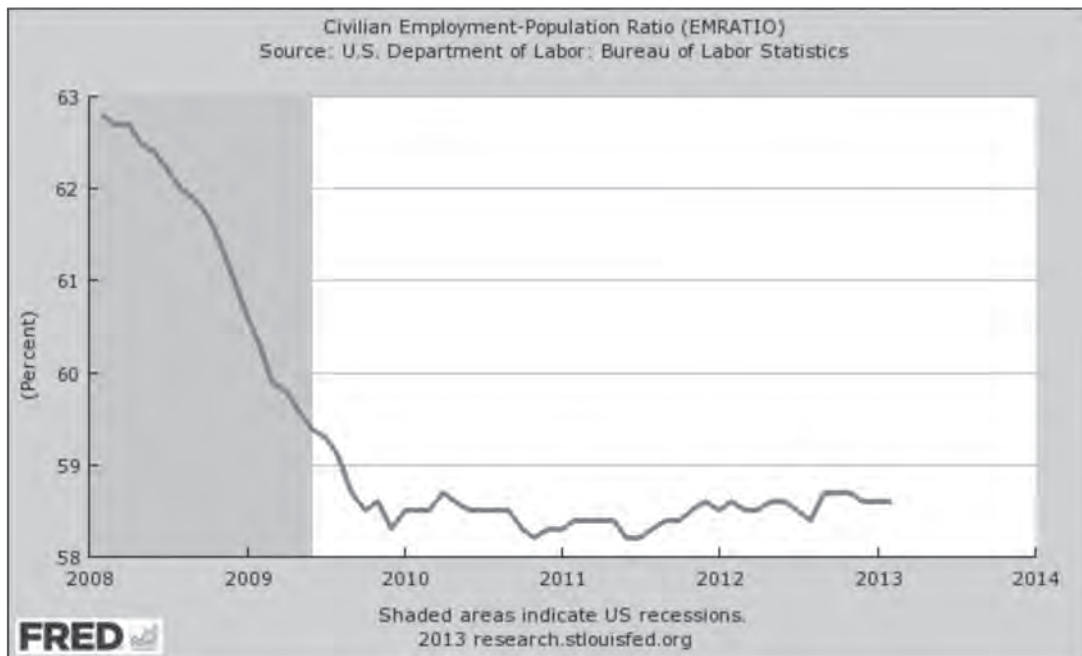
Goldilocks is back. Money printing is good. Risks have never been lower. What could possibly go wrong? Most investors appear to be willing to believe this tale of bliss. Others are cynically willing to dance until the music stops, always assuming they will know enough to leave early. We did not foresee the further gold market deterioration that has taken place in the first quarter of 2013. But nor do we believe it is likely to last long. We think it's 2007 all over again...a widespread refusal to see the facts and a very dangerous set-up for severe financial disorder, dead ahead. Perhaps you think that a crisis is not imminent...that the authorities will be able to hold the system together for a few more years. Perhaps, but we think not.

In our opinion, the market has a distorted view of reality which is misinterpreting data to fit its biases. Like all distorted views, it has supporting logic. The cornerstones of the conventional view are: (1) the U.S. economy is recovering; (2) the European banking system has been saved; and (3) the U.S. Federal Reserve ("Fed") will drain the excess liquidity from the system before the inflationary consequences arrive. If you accept this view, selling gold and gold stocks makes sense. Many already have. If you have doubts about this thesis, holding on to your gold exposure makes sense because gold and gold equities are currently priced as if these three statements are facts.

THE U.S. RECOVERY

The argument that the U.S. economy is recovering rests in large measure on an improving labor market. This is the right indicator since the Fed itself has explicitly tied its policies to levels of unemployment. But this indicator is not flashing recovery, in our opinion.

The mainstream media continually repeat that the U.S. unemployment rate hit a four-year low of 7.7 percent in February of this year. But is unemployment actually going down? Given federal deficits of more than \$6 trillion over the last four years and a \$2.4 trillion expansion of the Federal Reserve's balance sheet, you would hope so. The numbers say otherwise. The headlines reported that 236,000 jobs were added to the economy in February, 2013 but 296,000 Americans left the labor force the same month. And that is how the U.S. unemployment rate is going down – by classifying huge numbers of unemployed Americans as not wanting jobs. More than 146 million Americans were employed in 2007. In February of this year, only 142.2 million Americans had a job and the population has grown steadily since 2007.



We believe the employment-to-population ratio is a much better measure of labor market conditions than the headline unemployment rate. This ratio measures the proportion of the country's working-age population that is employed.

As you can see, the percentage of civilian, working-age Americans with a job has fallen from about 63 percent to below 59 percent since 2008 and it has not turned higher. This is the first time in the post-World War II era that the employment-to-population ratio has not bounced back following a recession. At this point, the employment-to-population ratio has been at or below 59 percent for 42 months in a row. Looking at employment levels, there has been no labor market recovery.

Quality of employment is as much an issue as quantity. According to the federal government's February Household Survey, the number of full-time jobs declined that month by 77,000, offset by a jump in part-time workers. Part-time jobs are jobs

only in the broadest sense of the word. But the most surprising development from a quality standpoint was that the number of multiple job-holders in February rose by a record 340,000, probably because median household income in the United States has fallen for four consecutive years. How many unemployed people got jobs? Not as many as you thought.

Subsequent to our writing of this report, the U.S. Bureau of Labor Statistics released its March employment report estimating that only 88,000 jobs were added to the U.S. economy in that month. Despite this disappointing number, the headline unemployment rate fell again to 7.6% as a shocking 496,000 people left the labor force in March alone, bringing the workforce participation rate to its lowest level since 1979.

The real facts about the labor market were spelled out in a March 22, 2013 speech by Fed Governor Sarah Bloom Raskin:

“About two-thirds of all job losses resulting from the recession were in moderate-wage occupations, such as manufacturing, skilled construction, and office administration jobs. However, these occupations have accounted for less than one-quarter of subsequent job gains. The declines in lower-wage occupations such as retail sales and food service accounted for about one-fifth of job loss, but a bit more than one-half of subsequent job gains. Indeed, recent job gains have been largely concentrated in lower-wage occupations such as retail sales, food preparation, manual labor, home health care, and customer service...the average wage for new hires has actually declined since 2010.”

Why is this data relevant to gold? A relatively encouraging February employment report was greeted as evidence that the economic recovery was likely strong enough to warrant an early reduction in the Fed's Quantitative Easing (“QE”) program and therefore gold was sold. The labor market is not simply an indicator of economic recovery, it is the very engine of it, driving retail sales, savings and investment.

There is a pattern here. Every year since 2009 has begun with the anticipation that the U.S. economy would achieve ‘escape velocity’ and the Federal Reserve would begin to exit its asset purchase programs. And each year, 2010, 2011 and 2012, the economy has slowed by year end and further Fed stimulus has been implemented. In our view, this year will be no different because the labor market shows no signs of strengthening. Talk of a Fed exit will recede to be replaced by yet more easing.

THE EURO ZONE (EZ): HANGING FROM A THREAD?

The EZ countries recently reported their PMIs for March, 2013. The PMI is a gauge of a country's manufacturing sector. Anything above 50 indicates expansion from the month before. Anything below 50 indicates contraction. Every major country was below 50, including Germany. For the EZ as a whole, the PMI hit a three month low of 46.8; output and new orders fell at an accelerating rate, driving further job losses with the unemployment rate already at a record high 12%. The decline was especially steep in France, Italy and Spain.

The most worrisome aspect of this slow grind down in the EZ economy is its effect on Europe's weakest link, its commercial banking sector. The EZ banking system is nearly four times larger by assets than that of the U.S. (\$46 trillion vs. \$12 trillion), with at least twice the amount of leverage (estimated at 26 to 1 for the EZ vs. 13 to 1 for the U.S.). European banks are also capitalized very differently; they rely upon deposits and short-term funding from the wholesale market much more than U.S. banks so they do not have as much long term debt protecting them and their depositors from insolvency. In other words, European bank capital structures are acutely vulnerable to a loss of confidence and their leverage also makes them highly sensitive to loan losses in an economic downturn.

Manufacturing PMI® (overall business conditions)

Eurozone Manufacturing PMI, sa, 50 = no change



Furthermore, the EZ banks are stuffed with European sovereign debt as they have been encouraged to play the game of pledging their assets as collateral to the ECB for cheap cash to buy sovereign bonds. The ECB has subsidized this very profitable carry trade by dropping their collateral quality requirements to slightly above the grade of used chewing gum while also slashing reserve requirements to just 1%. To top it all off, the ECB does not have a clear mandate to act independently to save the system (requiring ongoing approvals from Germany for policy initiatives) and there is neither a joint-and-several deposit guarantee nor a formal resolution procedure for insolvent banks among the 17 EZ members.

What could go wrong? Anything and everything. For example, bank deposits in Spain are bleeding away at annual rates of 10%, requiring them to sell assets. At the same time, these banks need to continue to purchase sizeable amounts of Spanish government bonds; the Spanish government's debt-to-GDP ratio continues to rise because required fiscal adjustments are too large and recessionary trends are taking their toll on government finances. Governments do not have any cash reserves; insolvency is only a failed debt auction away and can happen at any time.

The EZ last went into crisis in the spring of 2012 when the Spanish banking system nearly collapsed. The ECB had pumped €1 trillion into the EZ banks via its LTRO 1 and LTRO 2 programs in December 2011 and February 2012 to defend the banking system against the looming Greek default. The ECB then found itself facing a problem far greater than Greece. Spain's banking system has over €3.7 trillion in assets compared to Greece's €338 billion. Spanish banks were leveraged at about 20 to 1 with much of their borrowed money invested in Spanish sovereign bonds. And in the spring of 2012, Spanish bonds were plummeting. (Source: Phoenix Capital Research.)

At this point, ECB President Mario Draghi had to make Spanish bonds rally to prevent a Spanish banking collapse. He couldn't simply buy them because the power to do so is not in the ECB's mandate and Germany had openly opposed

the unconditional monetization of bonds. The ECB needs Germany's support if it wants to keep the EZ together. So Draghi hinted at providing unlimited bond buying for EZ sovereign bonds in June 2012 and then officially stated that this was now the ECB's policy in September 2012 (the so-called OMT program which is Quantitative Easing, "QE", by another name). The ECB didn't actually buy any bonds. Draghi simply stated that he would do so if required and if the countries needing help formally requested a bailout. A bailout would trigger an austerity program imposed by the European Union (Germany) and the ECB similar to Greece, amounting to a nearly complete loss of economic sovereignty.

Draghi's promise worked, effectively putting a floor beneath EU sovereign bonds. Debt markets were reassured that the ECB would buy if it had to, so commercial banks began to purchase Spanish debt again, increasing their positions to record highs. The Spanish national social security fund was also a massive buyer. Spanish bonds rose and Europe's banking solvency crisis was considered over. But nothing was actually resolved. The banks remain acutely fragile. Meanwhile, the pressures are now beginning to mount once again as the EZ economy declines. In addition, the collapse of the Cyprus banking system (which has been 'resolved' by seizing large deposits and imposing capital controls) now brings into question the stability of the all-important bank deposit base in the peripheral countries of the Euro Zone. Depositor confidence must be protected at any cost.

In our view, the EZ banking crisis is about to reawaken and this time ECB promises will likely not suffice. Outright monetization (the OMT program) will begin, assuming Germany confirms its support.

Meanwhile, the Fed, a central bank which requires no approvals, has been aggressively funding EZ banks. In the week ended February 27, 2013, following the shocking defeat of Euro-supporting Presidential Candidate Bersani in the Italian elections, and the even more shocking victory by Euro-skeptics Berlusconi and Grillo, the Fed injected a record \$99 billion of excess reserves into foreign banks. As the Fed's own H.8 Statement (<http://www.federalreserve.gov/releases/h8/current/>) made clear, its reserves in foreign (read European) banks soared from \$836 billion to a near-record \$936 billion. Of the \$1.884 trillion in very fungible Fed cash parked in various domestic and international U.S. banks, just half of it, or \$949 billion, is actually allocated to U.S. banks. The other half sits within the accounts of foreign banks operating in the U.S. Does this look like a central bank in search of an exit?

THERE IS NO CENTRAL BANK EXIT

Columbia University Professor Michael Woodford, a closely followed monetary theorist, told a London Business School seminar on March 28, 2013 that it is time to 'come clean' and state openly that bond purchases are forever and "the sooner people understand this, the better." Quantitative easing will never be reversed, he said. "All this talk of exit strategies is deeply negative." He noted that the Bank of Japan made the mistake of reversing all its money creation from 2001 to 2006 once it thought the economy was safely out of the woods. But Japan crashed back into deeper deflation as soon as the Lehman crisis hit.

David Stockman, former budget director for President Reagan, recently provided another reason why QE can never be taken back. Writing in the March 30, 2013 edition of the New York Times, he notes that the Fed has "dropped interest rates to zero and then digitally printed new money at the astounding rate of \$600 million per hour. Fast-money speculators have been 'purchasing' giant piles of Treasury debt and mortgage-backed securities, almost entirely by using short-term overnight money borrowed at essentially zero cost, thanks to the Fed. Uncle Ben has lined their pockets."

These front-running speculators who are renting the Treasuries, not owning them, will beat the Fed to the exit, says Stockman. "If and when the Fed — which now promises to get unemployment below 6.5 percent as long as inflation doesn't exceed 2.5 percent — even hints at shrinking its balance sheet, it will elicit a tidal wave of sell orders, because even a modest drop in bond prices would destroy the arbitrageurs' profits. Notwithstanding Mr. Bernanke's assurances about eventually, gradually making a smooth exit, the Fed is domiciled in a monetary prison of its own making."

Furthermore, Stockman projects that the U.S. federal deficit over the next 10 years will be much greater than estimated by the Congressional Budget Office which has used ridiculously rosy assumptions in its projections. “While the Fed fiddles, Congress burns. Self-titled fiscal hawks like Paul D. Ryan, the chairman of the House Budget Committee, are terrified of telling the truth: that the 10-year deficit is actually \$15 trillion to \$20 trillion, far larger than the Congressional Budget Office’s estimate of \$7 trillion. Its latest forecast, which imagines 16.4 million new jobs in the next decade, compared with only 2.5 million in the last 10 years, is only one of the more extreme examples of Washington’s delusions.”

A larger deficit means more QE, not an end to it. If the Fed isn’t a buyer of Treasuries and mortgage-backed securities, who is? In our view, it will not take long for gold to respond positively.

WATCH FOR THESE THREE THINGS

The fundamentals for gold have never been better, in our view, and we believe that the market is going to begin responding to them once again, in the very near future. First, we believe you will see evidence starting in the second quarter of this year that the U.S. economic recovery has been an illusion and that more monetary stimulus will come later in the year. Second, we anticipate that the first and second quarter financial statements of the Euro Zone banks are likely to show a disconcerting weakening of balance sheets including the early signs of deposit flight from weaker banks in the periphery countries. Third, we expect that the real dilemma of the Fed and other central banks will become better understood this year...that they cannot exit and that they will need to continue to expand their balance sheets to accommodate slowing growth and growing fiscal deficits as far as the eye can see.

On behalf of the Board of Directors,



Rudi P. Fronk
Chairman and Chief Executive Officer
April 8, 2013

MINERAL RESERVES AND RESOURCES

The following tables provide a breakdown of Seabridge's most recent National Instrument 43-101 compliant estimates of mineral reserves and resources by project as of December 31, 2012. Seabridge notes that mineral resources that are not mineral reserves do not have demonstrated economic viability.

Proven and Probable Mineral Reserves

Project	Zone	Reserve Category	Tonnes (millions)	AVERAGE GRADES				CONTAINED METAL			
				Gold (gpt)	Copper (%)	Silver (gpt)	Moly (ppm)	Gold (million ounces)	Copper (million pounds)	Silver (million ounces)	Moly (million pounds)
KSM	Mitchell	Proven	476	0.67	0.17	3.05	60.9	10.3	1,798	47	64
		Probable	935	0.57	0.16	3.11	50.7	17.2	3,296	93	104
	Iron Cap	Probable	193	0.45	0.20	5.32	21.5	2.8	834	33	9
	Sulphurets	Probable	318	0.59	0.22	0.79	50.6	6.0	1,535	8	35
	Kerr	Probable	242	0.24	0.45	1.2	0.0	1.9	2,425	9	0
KSM Totals		Proven	476	0.67	0.17	3.05	60.9	10.3	1,798	47	64
		Probable	1,688	0.51	0.22	2.65	40.1	27.9	8,090	144	149
		Total	2,164	0.55	0.21	2.74	44.7	38.2	9,888	191	213
Courageous Lake		Proven	12	2.41	n/a	n/a	n/a	1.0	n/a	n/a	n/a
		Probable	79	2.17				5.5			
		Total	91	2.20				6.5			
Seabridge Totals								44.7	9,888	191	213

Mineral Resources (Includes Mineral Reserves as Stated Above)

Project	Cut-Off Grade (g/T)	MEASURED RESOURCES								
		Tonnes (000)	Gold		Copper		Silver		Molybdenum	
			Grade (g/T)	Ounces (000)	Grade (%)	Pounds (millions)	Grade (g/T)	Ounces (000)	Grade (ppm)	Pounds (millions)
KSM:	0.5									
	Gold									
Mitchell	Equiv.	724,000	0.65	15,130	0.18	2,872	3.2	74,487	56	89.4
Courageous Lake	0.83	13,401	2.53	1,090	n/a	n/a	n/a	n/a	n/a	n/a
Quartz Mountain*	0.34	3,480	0.98	110	n/a	n/a	n/a	n/a	n/a	n/a
Red Mountain*	1.00	1,260	8.01	324	n/a	n/a	n/a	n/a	n/a	n/a
Castle/Black Rock*	0.25	4,120	0.57	75	n/a	n/a	n/a	n/a	n/a	n/a
Total Measured Resources			16,729		2,872		74,487		89.4	

* As of December 31, 2012 each of the Red Mountain, Grassy Mountain, Quartz Mountain and Castle Black Rock projects were subject to options agreements under which a 100% interest in each such project may be acquired from Seabridge by the optionee.

Note: United States investors are cautioned that the requirements and terminology of NI 43-101 differ significantly from the requirements of the SEC, including Industry Guide 7 under the US Securities Act of 1933. Accordingly, the Issuer's disclosures regarding mineralization may not be comparable to similar information disclosed by companies subject to the SEC's Industry Guide 7. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. Inferred Mineral Resources have a high degree of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Resource will ever be upgraded to a higher category.

INDICATED RESOURCES

Project	Cut-Off Grade (g/T)	Tonnes (000)	Gold		Copper		Silver		Molybdenum	
			Grade (g/T)	Ounces (000)	Grade (%)	Pounds (millions)	Grade (g/T)	Ounces (000)	Grade (ppm)	Pounds (millions)
KSM:										
Mitchell		1,052,900	0.58	19,634	0.16	3,713	3.1	104,940	59	136.9
Sulphurets	0.5	370,900	0.59	7,036	0.21	1,717	0.8	9,540	49	40.1
Kerr	Gold	270,400	0.24	2,086	0.46	2,741	1.1	9,563	n/a	n/a
Iron Cap	Equiv	361,700	0.44	5,117	0.21	1,674	5.4	62,796	47	37.5
KSM Total		2,055,900	0.51	33,873	0.22	9,845	2.8	186,838	54	214.5
Courageous Lake	0.83	93,914	2.28	6,884	n/a	n/a	n/a	n/a	n/a	n/a
Grassy Mountain*	0.55	18,657	1.54	924	n/a	n/a	n/a	n/a	n/a	n/a
Quartz Mountain*	0.34	54,330	0.91	1,591	n/a	n/a	n/a	n/a	n/a	n/a
Red Mountain*	1.00	340	7.04	76	n/a	n/a	n/a	n/a	n/a	n/a
Castle/Black Rock*	0.25	8,260	0.53	140	n/a	n/a	n/a	n/a	n/a	n/a
Total Indicated Resources				43,488		9,845		186,838		214.5

MEASURED PLUS INDICATED RESOURCES

Project	Cut-Off Grade (g/T)	Tonnes (000)	Gold		Copper		Silver		Molybdenum	
			Grade (g/T)	Ounces (000)	Grade (%)	Pounds (millions)	Grade (g/T)	Ounces (000)	Grade (ppm)	Pounds (millions)
KSM:										
Mitchell		1,776,900	0.61	34,764	0.17	6,585	3.1	179,426	58	226.3
Sulphurets	0.5	370,900	0.59	7,036	0.21	1,717	0.8	9,540	49	40.1
Kerr	Gold	270,400	0.24	2,086	0.46	2,741	1.1	9,563	n/a	n/a
Iron Cap	Equiv	361,700	0.44	5,117	0.21	1,674	5.4	62,796	47	37.5
KSM Total		2,779,900	0.55	49,003	0.21	12,717	2.9	261,325	55	303.8
Courageous Lake	0.83	107,315	2.31	7,974	n/a	n/a	n/a	n/a	n/a	n/a
Grassy Mountain*	0.55	18,657	1.54	924	n/a	n/a	n/a	n/a	n/a	n/a
Quartz Mountain*	0.34	57,810	0.92	1,701	n/a	n/a	n/a	n/a	n/a	n/a
Red Mountain*	1.00	1,600	7.78	400	n/a	n/a	n/a	n/a	n/a	n/a
Castle/Black Rock*	0.25	12,380	0.54	215	n/a	n/a	n/a	n/a	n/a	n/a
Total Measured Plus Indicated Resources				60,217		12,717		261,325		303.8

INFERRED RESOURCES

Project	Cut-Off Grade (g/T)	Tonnes (000)	Gold		Copper		Silver		Molybdenum	
			Grade (g/T)	Ounces (000)	Grade (%)	Pounds (millions)	Grade (g/T)	Ounces (000)	Grade (ppm)	Pounds (millions)
KSM:										
Mitchell		567,800	0.44	8,032	0.14	1,752	3.4	62,068	51	63.8
Sulphurets	0.5	177,100	0.50	2,847	0.15	585	1.2	6,833	30	11.7
Kerr	Gold	85,000	0.24	656	0.28	525	0.9	2,460	n/a	n/a
Iron Cap	Equiv	297,300	0.36	3,441	0.20	1,310	3.9	37,278	60	39.3
KSM Total		1,127,200	0.41	14,976	0.17	4,172	3.0	108,638	50	114.8
Courageous Lake	0.83	48,963	2.18	3,432	n/a	n/a	n/a	n/a	n/a	n/a
Grassy Mountain*	0.55	1,722	1.10	61	n/a	n/a	n/a	n/a	n/a	n/a
Quartz Mountain*	0.34	44,800	0.72	1,043	n/a	n/a	n/a	n/a	n/a	n/a
Red Mountain*	1.00	2,079	3.71	248	n/a	n/a	n/a	n/a	n/a	n/a
Castle/Black Rock*	0.25	7,950	0.37	93	n/a	n/a	n/a	n/a	n/a	n/a
Total Inferred Resources				19,853		4,172		108,638		114.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion of the results of operations and financial condition of Seabridge Gold Inc. and its subsidiary companies for the years ended December 31, 2012 and 2011. This report is dated March 22, 2013 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2012 and 2011, the Company's Annual Information Form filed on SEDAR at www.sedar.com, and the Annual Report on Form 40-F filed on EDGAR at www.sec.gov/edgar.shtml. Other corporate documents are also available on SEDAR and EDGAR as well as the Company's website www.seabridgegold.net. As the Company has no operating project at this time, its ability to carry out its business plan rests with its ability to sell projects or to secure equity and other financings. All amounts contained in this document are stated in Canadian dollars unless otherwise disclosed.

The accompanying consolidated financial statements for the year ended December 31, 2012 and the comparative year ended December 31, 2011 have been prepared by the Company in accordance with International Financial Reporting Standards "IFRS" as issued by the International Accounting Standards Board.

Company Overview

Seabridge Gold Inc. is a development stage company engaged in the acquisition and exploration of gold properties located in North America. The Company is designed to provide its shareholders with leverage to a rising gold price. The Company's business plan is to increase its gold ounces in the ground but not to go into production on its own. The Company will either sell projects or participate in joint ventures towards production with major mining companies. During the period 1999 through 2002, when the price of gold was lower than it is today, Seabridge acquired 100% interests in eight advanced-stage gold projects situated in North America. Subsequently, the Company acquired a 100% interest in the Noche Buena project in Mexico. As the price of gold has moved higher over the past several years, Seabridge has commenced exploration activities and engineering studies at several of its projects. The Company sold the Noche Buena project for US\$25 million (\$30,842,000) in December 2008 and residual interests therein for US\$10.1 million in 2010. Seabridge's current principal projects include the Courageous Lake property located in the Northwest Territories and the KSM (Kerr-Sulphurets-Mitchell) property located in British Columbia. Seabridge's common shares trade in Canada on the Toronto Stock Exchange under the symbol "SEA" and in the United States on the New York Stock Exchange under the symbol "SA".

Selected Annual Information

Summary operating results (\$000's except per share amounts)	2012	2011	2010
Corporate and administrative costs	(15,832)	(19,840)	(5,780)
Gain on disposition of assets	1,076	154	10,180
Impairment of marketable securities	(1,216)	—	—
Interest income	412	653	440
Other income – flow-through shares	5,739	195	—
(Loss) gain on convertible debenture	—	(758)	486
Other	(64)	(4)	1,093
Income taxes	(2,624)	(498)	(3,096)
Net (loss) gain	(12,509)	(20,098)	3,323
Basic loss per share	(0.29)	(0.48)	0.08
Diluted loss per share	(0.29)	(0.48)	0.08
Summary balance sheets (\$000's)	2012	2011	2010
Current assets	53,952	59,908	35,816
Non-current assets	209,651	168,811	144,406
Total assets	263,603	228,719	180,222
Current liabilities	10,563	8,272	3,769
Non-current liabilities	4,510	3,085	2,640
Equity	248,530	217,362	173,813
Total liabilities and equity	263,603	228,719	180,222

Results of Operations

The net loss for the year ended December 31, 2012 was \$12.5 million or \$0.29 per share compared to a net loss of \$20.1 million or \$0.48 per share for 2011.

The main expenses contributing to the losses in both 2012 and 2011 were corporate and administrative costs, and in particular, stock-based compensation. In 2011, the fair value of two grants of options, previously unrecognized, were recognized in 2011 and added to significant costs in that year. Other costs that have contributed to net loss in 2012 are the impairment of marketable securities and deferred income tax expenses. Counteracting the net loss was the recognition of other income relating to the flow-through financing completed in 2011 and late 2012. These items are discussed further below.

In 2012, corporate and administrative expenses decreased by \$4.0 million, resulting from the reduced stock-based compensation. In 2012, amortization of the fair value of options granted in 2010 and 2011 represented 91% or \$9.7 million of the \$10.7 million recognized in the year. The remaining \$1.0 million represented the fair value of compensation for stock options issued in 2012. Approximately \$7.0 million of stock-based compensation related to stock option grants in 2010, 2011 and the current year will be amortized and charged to the statement of operation in 2013 and 2014. A summary of grants, fair values and charges to the statement of operations is as follows:

Options granted

(\$'000's except number of options and exercise prices)

	Number of options	Exercise price	Fair value	Expensed prior to 2011	Expensed in 2011	Expensed in 2012	Remaining balance to be expensed
August 8, 2007	120,000	29.60	792	749	43	—	—
December 8, 2008	515,000	10.54	3,043	—	3,043	—	—
December 20, 2010	950,000	29.75	12,363	205	8,654	2,568	936
March 1, 2011	200,000	28.80	3,274	—	1,705	1,364	205
March 29, 2011	150,000	30.42	2,552	—	1,134	1,134	284
June 29, 2011	50,000	27.39	583	—	93	183	307
December 12, 2011	550,000	21.98	6,454	—	245	4,490	1,719
March 7, 2012	25,000	21.54	305	—	—	251	54
June 27, 2012	100,000	14.70	839	—	—	288	551
September 11, 2012	180,000	17.32	1,749	—	—	358	1,391
December 12, 2012	165,000	17.52	1,581	—	—	55	1,526
					14,917	10,691	6,973

Other corporate and administrative expenses also include employee, professional and general and administrative costs. On a combined basis, employee costs and professional fees increased in 2012 as the Company increased the number of appointed officers. In addition, bonus remuneration increased slightly, commensurate with corporate achievements. General and administrative costs decreased in the year as the Company experienced a decrease in communication, investor relations and travel costs. Staff levels and related employee costs are not expected to increase significantly in 2013 now that the environmental permit applications have been submitted for the KSM project. General and administrative costs are expected to remain at current levels in 2013.

The Company holds common shares of several mining companies that were received as consideration for optioned mineral properties, and holds an investment in a gold exchange traded receipt, issued by the Canadian Mint. All of the investments trade on Canadian stock exchanges and are susceptible to significant fluctuations in market value. The trend of weakening prices for junior resource companies over the past twelve months pointed to uncertainty of the full recoverability of these investments and the Company recorded a \$1.2 million impairment charge to the statement of operations. Depending on market conditions in 2013, further impairment may be necessary.

In 2012, as part of the Company's strategy to concentrate on its two core projects, KSM and Courageous Lake, the Company entered into an agreement with Banks Island Gold Ltd. ("Banks Island") to option its 100% interest in the Red Mountain Project. Under the terms of the agreement Banks Island paid \$1.0 million in cash and issued 4,000,000 of its common shares to the Company. Banks Island must also pay the Company a further \$1.5 million in cash on or before August 3, 2013, and pay the Company a final \$9.5 million in cash on or before February 3, 2015. The total value of cash and shares of \$3.8 million was recorded first as a recovery against the carrying value of the mineral properties of \$2.7 million, and the excess, or \$1.1 million, was recorded as a gain on disposition of mineral properties on the statement of operations in 2012. The anticipated payments in 2013 and 2015 will be treated as gains in the respective year of receipt.

Interest income decreased slightly in 2012 over the comparable year and reflects the reduced cash balances in 2012. Rates have remained steady over the two fiscal years. The Company's objective is to preserve the principal of its short-term investments and will seek to maximize the return it can attract, however, current economic indicators do not point to enhanced returns in the near term.

The Company recorded \$5.7 million of other income, in 2012, related to two private placements of flow-through shares it finalized in December 2011. A combined premium of \$5.5 million was recognized as a liability on the statement of financial position when the financing closed and \$0.2 million was recognized as other income in 2011 for expenditures made in the last month of 2011. The premium reflects the value the investors paid for the renounced expenditures purchased and deductible to them for tax purposes. In 2012, as qualifying expenditures were made, the remaining premium of \$5.3 million was fully recognized on the statement of operations as other income.

In November 2012, the Company completed two additional private placements of flow-through shares and recorded a similar premium of \$6.7 million on the statement of financial position, at that time. In December 2012, \$0.5 million of the premium was recognized through other income on the statement of operations and the remaining \$6.2 million will be recorded as income on the statement of operations in 2013 as qualifying expenditures on the projects are made.

In 2011, the Company recognized a \$0.8 million loss on the conversion of a convertible debenture issued to the Company by ICN Resources Ltd. in place of cash that was due in 2010. The debenture matured 18 months from issuance, bore interest at 5% per annum and on October 17, 2011 the principal was converted to 1,750,000 shares of ICN and accumulated interest was received in cash.

The Company recognized a minimal foreign exchange loss in 2012 compared to a gain in 2011. The loss in 2012 and the gain in 2011 are attributable to the conversion of miscellaneous net assets denominated in US dollars. No significant fluctuations in gains or losses are expected in the near term due to the negligible exposure to foreign currencies.

The Company recognized \$2.6 million of tax expense in 2012 versus \$0.5 million in 2011. The majority of the expense in 2012, and all in 2011 was in recognition of the deferred tax liability for the potential unwinding of taxable temporary differences between the tax basis and book values of mineral properties. The Company has financed exploration activities in 2011 and 2012 with the proceeds from a flow-through financings and the renouncement of those expenditures, combined with the reduction in tax basis of the Company's mineral properties by the proceeds received upon optioning non-core assets has diminished the tax basis and has contributed to the heightened deferred tax liability.

Quarterly Information

Selected financial information for each of the last eight quarters ended December 31, 2012 is as follows (unaudited):

Quarterly operating results (\$'000's)	4th Quarter ended December 31, 2012	3rd Quarter ended September 30, 2012	2nd Quarter ended June 30, 2012	1st Quarter ended March 30, 2012
Revenue	—	—	—	—
Profit (loss) for period	(2,651)	(5,311)	(2,283)	(2,264)
Basic profit (loss) per share	(0.08)	(0.12)	(0.05)	(0.04)
Diluted profit (loss) per share	(0.08)	(0.12)	(0.05)	(0.04)

Quarterly operating results (\$000's)	4th Quarter ended December 31, 2011	3rd Quarter ended September 30, 2011	2nd Quarter ended June 30, 2011	1st Quarter ended March 30, 2011
Revenue	—	—	—	—
Profit (loss) for period	(5,069)	(3,706)	(7,298)	(4,025)
Basic profit (loss) per share	(0.12)	(0.09)	(0.18)	(0.09)
Diluted profit (loss) per share	(0.12)	(0.09)	(0.18)	(0.09)

In the fourth quarter of 2012, the Company continued to evaluate exploration results from the drilling programs at KSM and Courageous Lake and prepared for the submission of an environmental assessment application/environmental impact statement that was finalized early in 2013.

Mineral Interests Activities

During the year ended December 31, 2012, the Company incurred expenditures of \$48.8 million, an increase of \$7.5 million over 2011 when the Company spent \$41.3 million on mineral interests. In both 2012 and 2011, virtually all of the expenditures were on KSM, amounting to \$33.1 million (2011 – \$27.6 million), and \$15.6 million (2011 – \$13.2 million) on Courageous Lake.

Significant costs were incurred at KSM on the 2012 drilling program, resulting in an updated preliminary feasibility study, as well as preparing for submittal of an environmental assessment application/environmental impact statement that was finalized early in 2013. The updated preliminary feasibility study, filed in June 2012, confirmed the mineral reserves of 38.2 million ounces of gold and 9.9 billion pounds of copper and updated certain engineering design changes, including an envisioned underground and block cave mining at the Mitchell deposit, revised access routes and lining of a portion of the tailings management facility, among other things. In addition, through the drilling program, a high-grade copper-gold zone below the Kerr deposit was discovered. The discovery has the best metal values found to date at KSM, and is favorably located for cost-effective exploitation. The discovery could significantly improve KSM's projected economics and a 2013 drilling program has been established to follow up on the discovery.

In 2011, significant charges were incurred to prepare and finalize an updated preliminary feasibility study, which significantly increased mineral reserves and for drilling in the targeted search of higher grade material. The Company also spent considerable resources studying the effect of expanding planned mill throughput. Both the drilling and engineering studies resulted in a significant enhancement to the project's economics.

Work is continuing at KSM and expenditures in 2013 are expected to be comparable to those incurred in 2012 as the Company follows up on the successful 2012 drilling program.

At Courageous Lake, work was completed on a significant drilling program that resulted in the discovery of a promising high grade gold occurrence approximately 10 kilometers south of the FAT deposit, where the Company has defined a 6.5 million ounce proven and probable gold reserve. The new discovery is known as Walsh Lake and appears to be the southern extension of the historical Tundra Gold Mine, a high grade gold mine which was abandoned in 1999. The targeted exploration area stretches 1.5 kilometers south from the former mine. The 2012 drill program confirmed a strike length of 850 meters and remains open to the north, up dip and at depth. A drilling program has been developed in 2013 to further explore the deposit and is expected to result in an initial resource estimation later in 2013.

In addition to the Walsh Lake discovery, the Company filed the first preliminary feasibility study ("PFS") for Courageous Lake. The PFS was based on a single open-pit mining operation with on-site processing. A base case scenario was developed for the project incorporating an estimated 91.1 million tonnes of proven and probable reserves at an estimated average grade of 2.20 grams of gold per tonne feeding a 17,500 tonnes per day operation (6.1 million tonnes per year annual average throughput). This would yield a projected 15-year operation with average estimated annual production of 385,000 ounces of gold at a projected life of mine average cash operating cost of US\$780 per ounce recovered. Start-up capital costs for the project were estimated at US\$1.52 billion, including a contingency of US\$187 million. At a gold price of US\$1,384 per ounce (the 3-year trailing average gold price at the time of the study), the base case had an estimated US\$1.5 billion pre-tax net cash flow, a US\$303 million net present value at a 5% discount rate and an internal rate of return of 7.3%.

In 2012, the Company continued to actively divest of its non-core projects through dispositions or the optioning-off of its interests to third parties, who will focus their attention on the properties. By holding on to the common shares, received as consideration, or in some cases, net profits interests, the Company can continue to participate in the future success of the projects.

In 2012, the Company entered into an agreement with Banks Island Gold Ltd. to option its 100% interest in the Red Mountain Project. Under the terms of the option agreement, in order to acquire the property, Banks Island Gold paid the Company \$1 million and 4 million shares of Banks Island Gold valued at \$2.8 million. In 2013 Banks Island Gold is required to pay the Company a further \$1.5 million in cash and a final \$9.5 million in cash on or before February 3, 2015.

Also in 2012, the Company transferred its interests in Nevada based projects to a newly created company called Wolfpack Gold Corp. ("Wolfpack"). Some of the properties have been optioned to Wolfpack and others were transferred in exchange for shares in Wolfpack. Although currently a private company, the Company has been made aware that the shares held in Wolfpack are subject to a merger transaction with Tigris Uranium Corp. whereby the combined entity will trade on the TSX Venture Exchange. The transaction is expected to take effect in the second fiscal quarter of 2013.

Liquidity and Capital Resources

In 2012, the Company closed two significant financings raising gross proceeds of \$42.0 million.

On November 21, 2012, the Company closed two private placement financings totalling 1,100,000 flow-through common shares, at an average price per share of \$21.85, raising gross proceeds of \$24.0 million. The purchase price for 635,800 shares subscribed to, by residents of British Columbia, was \$22.68 and represented a 44% premium over the market price of the Company's shares on the day the financing closed. The purchase price for 464,200 shares subscribed to, by residents outside of British Columbia, was \$20.72 and represented a 32% premium over the market price of the Company's shares. For tax purposes, the Company has renounced its ability to deduct qualifying exploration expenditures for the equivalent value of the gross proceeds of the financings and has transferred the deductibility to the purchasers of the flow-through shares. The Company has committed to spend the full \$24.0 million on qualifying expenditures over a twelve month period beginning on November 21, 2012. From that date to December 31, 2012, the Company incurred \$1.7 million of qualifying exploration expenditures and will spend \$22.3 million in 2013.

In December 2012, the Company issued 1,004,491 common shares to Royal Gold Inc. ("Royal Gold") at \$17.92 per share raising gross proceeds of \$18 million. This transaction was a follow-up transaction to a similar financing that closed in June 2011 and is further described below. The purchase price for the shares was equal to a 15% premium over the market price of the Company's shares and provided Royal Gold an option to acquire a 0.75% net smelter royalty on all gold and silver production sales from the KSM property for the lesser of \$60 million or US\$75 million. The option is exercisable for a period of 60 days following the announcement of receipt of all material approvals and permits, full project financing and certain other conditions for the KSM project. Combined with the option purchased in 2011, Royal Gold now holds an option to purchase a 2% net smelter royalty on all gold and silver production sales from the KSM for the lesser of \$160 million or US\$200 million.

In 2011, the Company closed two significant financings raising gross proceeds of \$57.4 million.

In June 2011, the Company issued 1,019,000 common shares to Royal Gold at \$29.44 per share raising gross proceeds of \$30 million. The purchase price for the shares was equal to a 15% premium over the market price of the Company's shares and provided Royal Gold an option to acquire a 1.25% net smelter royalty on all gold and silver production sales from the KSM property for the lesser of \$100 million or US\$125 million. The option is exercisable for the same period described in the 2012 financing above.

In December 2011, the Company closed two private placement financings of 500,000 flow-through common shares each, at an average price per share of \$27.35, raising gross proceeds of \$27.4 million. The purchase price for 500,000 shares subscribed to, by residents of British Columbia, was \$28.58 and represented a 30.5% premium over the market price of the Company's shares on December 6, 2011. The purchase price for 500,000 shares subscribed to, by residents outside of British Columbia, was \$26.13 and represented a 19.3% premium over the market price of the Company's shares on the same day. For tax purposes, the Company has renounced its ability to deduct qualifying exploration expenditures for the equivalent value of the gross proceeds of the financings and has transferred the deductibility to the purchasers of the flow-through shares. From December 6, 2011 to December 31, 2011, the Company incurred \$976,000 of expenditures and the remaining \$26.4 million was spent in 2012.

The Company's working capital position, at December 31, 2012, was \$43.4 million, down from \$51.7 million at the end of 2011. Cash and short-term deposits at December 31, 2012 totaled \$43.4 million, also down from \$54.3 million as at December 31, 2011. In 2012 the Company received \$0.3 million from the exercise of options, whereas in 2011, the Company received \$3.8 million on exercise of options. In 2012, \$1.0 million was received in cash as partial consideration for optioned mineral properties and an additional \$3.5 million of cash is expected in 2013.

Cash utilized in operating activities, in 2012, was \$4.2 million compared to \$3.2 million in 2011. Operating activities in the near-term are not expected to deviate significantly from current levels.

Contractual Obligations (\$000's)

	Total	2013	Payments due by period		
			2014-15	2016-17	After 2017
Mineral interests	3,177	403	1,146	1,063	565
Flow-through expenditures	22,337	22,337	–	–	–
Business premises operating lease	561	132	264	165	–
	26,075	22,872	1,410	1,228	565

Amounts shown for mineral interests include option payments and mineral lease payments that are required to maintain the Company's interest in the mineral projects.

Outlook

The Company has extensive exploration plans for 2013, both at KSM and Courageous Lake. The winter drill program has commenced at Courageous Lake and results from the program will dictate follow-up required in a summer program. At KSM, the drilling program will commence in late May or early June depending on snow-cover conditions and should run through to September. On a corporate front, the Company plans to continue to seek opportunities to either sell or joint venture one or both of the projects. A joint venture arrangement with a major mining partner would enable the Company to move the projects closer toward production.

Funds derived from the \$24.0 million flow-through financing completed at the end of 2012 will be utilized to complete the above mentioned exploration projects.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2012, the Company's management, with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators and has concluded that such controls and procedures are effective.

Internal Controls Over Financial Reporting

The Company's management, under the supervision of the CEO and the CFO, are responsible for establishing and maintaining the Company's internal controls over financial reporting. Management conducted an evaluation of internal controls over financial reporting based on the framework established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO concluded that the Company's internal controls over financial reporting were effective as at December 31, 2012.

Shares Issued and Outstanding

At March 22, 2013, the issued and outstanding common shares of the Company totaled 45,556,376. In addition, there were 3,353,300 stock options granted and outstanding, including 665,000 options that are subject to shareholder approval. Assuming the exercise of all outstanding options, there would be 48,909,676 common shares issued and outstanding.

Related Party Transactions

During the year ended December 31, 2012, a private company controlled by a director of the Company was paid \$87,000 (2011 – \$35,600) for technical services provided by his company related to mineral properties; a private company controlled by a second director was paid \$343,750 (2011 – \$337,500) for corporate consulting fees for services rendered; and a third director was paid \$27,200 (2011 – \$15,800) for geological consulting. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2012, \$39,000 in liabilities to related parties remained outstanding. (December 31, 2011 – nil).

Changes in Accounting Standards Not Yet Adopted

IFRS 9 FINANCIAL INSTRUMENTS – In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of adopting IFRS 9 on the consolidated financial statements.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS – In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements to replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power and variable returns before control is present. IFRS 10 must be applied starting January 1, 2013 with early adoption permitted. The Company does not expect the impact of adopting IFRS 10 on the consolidated financial statements to be significant.

IFRS 11 JOINT ARRANGEMENTS – In May 2011, the IASB issued IFRS 11 Joint Arrangements to replace IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of IFRS 11 is on the rights and obligations of the parties involved in the joint arrangement. IFRS 11 must be applied starting January 1, 2013 with early adoption permitted. The Company does not expect the impact of adopting IFRS 11 on the consolidated financial statements to be significant.

IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES – In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). IFRS 12 must be applied starting January 1, 2013 with early adoption permitted. The Company does not expect the impact of adopting IFRS 12 on the consolidated financial statements to be significant.

IFRS 13 FAIR VALUE MEASUREMENT – In May 2011, the IASB issued IFRS 13 Fair Value Measurement as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. Enhanced disclosures about fair value are required to enable financial statement users to understand how the fair values were derived. IFRS 13 must be applied starting January 1, 2013 with early adoption permitted. The Company does not expect the impact of adopting IFRS 13 on the consolidated financial statements to be significant.

IFRIC 20 STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 must be applied starting January 1, 2013 with early adoption

permitted. Due to the pre-development stage that the Company is currently in, and its business model, the Company does not believe that IFRIC 20 will have an impact on the consolidated financial statements in the foreseeable future.

Risks and Uncertainties

The following discussion on risks and uncertainties should be read in conjunction with documentation contained in the Company's Annual Information Form filed on SEDAR at www.sedar.com, and the Annual Report on Form 40-F filed on EDGAR at www.sec.gov/edgar.shtml.

Metal Prices

Factors beyond the control of the Company affect the price and marketability of any gold or other minerals discovered. Metal prices have fluctuated widely, particularly in recent years and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, faith in paper currencies, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted. However, as the Company is highly leveraged to the price of gold, fluctuations in the gold price should have an even greater impact on the price of the Company's shares.

Uncertainty of Mineral Resources and Mineral Reserves

The Company reports mineral resources and mineral reserves in accordance with the requirements of Canadian securities laws, which differ from the requirements of U.S. securities laws. Mineral resources and mineral reserves have been prepared in accordance with the Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining and Metallurgy and Petroleum Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. These standards differ significantly from the requirements of the SEC, including Industry Guide 7 under the US Securities Act of 1933.

The statements of mineral resources and mineral reserves disclosed by the Company are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Such estimates necessarily include presumptions of continuity of mineralization which may not actually be present. Market fluctuations and the prices of metals may render mineral resources and mineral reserves uneconomic. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

The Company's mineral projects are in various stages of development, and only the Company's KSM project contains mineral reserves. The Company's ability to put these properties into production will be dependent upon the results of further drilling and evaluation. There is no certainty that expenditures made in the exploration of the Company's mineral properties will result in identification of commercially recoverable quantities of ore or that ore reserves will be mined or processed profitably. The mineral resources and mineral reserves have been determined and valued based on assumed mineral prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for minerals may render portions of the Company's mineralization as uneconomic and result in reduced reported mineralization. Greater assurance will require completion of final comprehensive feasibility studies and, possibly, further associated exploration and other work that concludes a potential mine at each of these projects is likely to be economic, but such studies remain subject to the same risks and uncertainties.

Exploration and Development Risks

The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, only KSM has a known body of commercial ore but has yet to receive operating permits nor adequate funding to advance the project to production. Major expenses may be required to establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current development programs planned by the Company will result in a profitable commercial mining operation. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Company has limited experience in the development and operation of mines and in the

construction of facilities required to bring mines into production. The Company has relied and may continue to rely upon consultants for development and operating expertise. The economics of developing mineral properties are affected by many factors including the cost of operations, variations of the grade of ore mined and fluctuations in the price of minerals produced. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production. Although precautions to minimize risk will be taken, processing operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

Mineral Deposits and Production Costs

Mineral deposits and production costs are affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of any ore ultimately mined may differ from that indicated by drilling results. Short-term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that any gold, copper or other minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale heap leaching.

Currency Exchange Rate Fluctuation

The minerals present in the Company's projects are sold in U.S. dollars and therefore projected revenue of its projects is in U.S. dollars. The Company's material properties are located in Canada and therefore its projected expenses for developing its projects are in Canadian dollars. The prefeasibility report and preliminary assessments on the KSM and Courageous Lake projects use a U.S. dollar value for all projected expenses by converting projected Canadian dollar expenses into U.S. dollars. To the extent the actual Canadian dollar to U.S. dollar exchange rate is less than or more than these estimates, the profitability of the projects will be more than or less than that estimated in the preliminary assessments, respectively (if the other assumptions are realized).

Financing Risks

The Company has limited financial resources, has no operating cash flow and has no assurance that sufficient funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. The exploration of the Company's mineral properties is, therefore, dependent upon the Company's ability to obtain financing through the sale of projects, joint venturing of projects, or equity financing or other means. Such sources of financing may not be available on acceptable terms, if at all. Failure to obtain such financing may result in delay or indefinite postponement of exploration work on the Company's mineral properties, as well as the possible loss of such properties. Any transaction involving the issuance of previously authorized but unissued shares of common or preferred stock, or securities convertible into common stock, could result in dilution, possibly substantial, to present and prospective holders of common stock. These financings may be on terms less favorable to the Company than those obtained previously. The Company has stated that its business plan is to increase gold ounces in the ground but not to go into production on its own.

Uninsurable Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

Competition

The mineral industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Environmental and Other Regulatory Requirements

The Company's potential mining and processing operations and exploration activities are subject to various laws and regulations governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. Such operations and exploration activities are also subject to substantial regulation under these laws by governmental agencies and may require that the Company obtain permits from various governmental agencies. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, are necessary prior to operation of properties in which the Company has interests and there can be no assurance that the Company will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

To the best of the Company's knowledge, the Company is operating in compliance with all applicable environmental regulations.

Political Risk

Properties in which the Company has, or may acquire, an interest are, or may be, located in areas of Canada or the United States which may be of particular interest or sensitivity to one or more interest groups, including aboriginal groups claiming title to land. The Company's material properties are in British Columbia and the Northwest Territories of Canada and are in areas with a First Nations presence. Consequently, mineral exploration and mining activities in those areas may be affected in varying degrees by political uncertainty, expropriations of property and changes in applicable government policies and regulation such as tax laws, business laws, environmental laws, native land claims entitlements or procedures and mining laws, affecting the Company's business in those areas. Any changes in regulations or shifts in political conditions are beyond the control or influence of the Company and may adversely affect its business, or if significant enough, may result in the impairment or loss of mineral concessions or other mineral rights, or may make it impossible to continue its mineral exploration and mining activities. In many cases mine construction and commencement of mining activities is only possible with the consent of the local First Nations group and many companies have secured such consent by committing to take measures to limit the adverse impact to, and ensure some of the economic benefits of the construction and mining activity will be enjoyed by, the local First Nations group.

Foreign Operations

The Company currently has limited interests in properties located outside of Canada but holds interests in various projects within the United States. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including exchange controls, currency fluctuations, changes in taxation laws or policies as well as by laws and policies of the United States and Canada affecting foreign trade, investment and taxation.

Limited Operating History: Losses

The Company to date has limited experience in mining or processing of metals. The Company has experienced, on a consolidated basis, losses in most years of its operations. All activities have been of an exploration and development nature. There can be no assurance that the Company will generate profits in the future.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred exploration expenditures, the value of stock-based compensation, asset retirement obligations and deferred income tax. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain and the model has its limitations.

The recoverability of the carrying value of mineral properties and associated deferred exploration expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

The provision for asset retirement obligations is the best estimate of the present value of the future costs of reclaiming the environment that has been subject to disturbance through exploration activities or historical mining activities. The Company uses assumptions and evaluates technical conditions for each project that have inherent uncertainties, including changes to laws and practices and to changes in the status of the site from time-to-time. The timing and cost of the rehabilitation is also subject to uncertainty. These changes, if any, are recorded on the statement of financial position as incurred.

The Company has net assets in Canada and the United States and files corporate tax returns in each. Deferred tax liabilities are estimated for tax that may become payable in the future. Future payments could be materially different from our estimated deferred tax liabilities. We have deferred tax assets related to non-capital losses and other deductible temporary differences. Deferred tax assets are only recognized to the degree that it shelters tax liabilities or when it is probable that we will have enough taxable income in the future to recover them.

Forward-Looking Statements

The consolidated financial statements and management's discussion and analysis contain certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Financial statements include certain amounts based on estimates and judgments. When an alternative method exists under IFRS, management has chosen that which it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with IFRS.

The Company maintains adequate systems of internal accounting and administrative controls. Such systems are designed to provide reasonable assurance that transactions are properly authorized and recorded, the Company's assets are appropriately accounted for and adequately safeguarded and that the financial information is relevant and reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management's discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis, the external auditors' report, examines the fees and expenses for audit services, and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. KPMG LLP, the external auditors, have full and free access to the Audit Committee.



Rudi P. Fronk
Chairman and Chief Executive Officer
March 22, 2013



Christopher J. Reynolds
Vice President, Finance and Chief Financial Officer
March 22, 2013

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Seabridge Gold Inc.

We have audited the accompanying consolidated financial statements of Seabridge Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising 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 as issued by the International Accounting Standards Board, 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 and the standards of the Public Company Accounting Oversight Board (United States). 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 our 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, we 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Seabridge Gold Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Seabridge Gold Inc.'s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 22, 2013 expressed an unqualified (unmodified) opinion on the effectiveness of Seabridge Gold Inc.'s internal control over financial reporting.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 22, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors of Seabridge Gold Inc.

We have audited Seabridge Gold Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Seabridge Gold Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting under the heading Management's Report on Internal Control over Financial Reporting included in Management's Discussion and Analysis for the year ended December 31, 2012. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Seabridge Gold Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Seabridge Gold Inc. as of December 31, 2012 and December 31, 2011, and the related statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for each of the years ended December 31, 2012 and December 31, 2011, and our report dated March 22, 2013 expressed an unqualified (unmodified) opinion on those consolidated financial statements.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 22, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents (Note 4)	2,284	7,063
Short-term deposits (Note 4)	41,099	47,241
Amounts receivable and prepaid expenses	1,911	1,232
Marketable securities (Note 5)	8,658	4,372
	53,952	59,908
Non-current assets		
Mineral interests (Note 6)	208,091	167,211
Reclamation deposits (Note 7)	1,553	1,588
Property and equipment	7	12
Total non-current assets	209,651	168,811
Total assets	263,603	228,719
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	4,210	2,934
Taxes payable	97	78
Flow-through share premium (Note 10)	6,256	5,260
	10,563	8,272
Non-current liabilities		
Deferred income tax liabilities (Note 14)	2,451	1,122
Provision for reclamation liabilities (Note 9)	2,059	1,963
Total non-current liabilities	4,510	3,085
Total liabilities	15,073	11,357
Shareholders' equity (Note 10)	248,530	217,362
Total liabilities and shareholders' equity	263,603	228,719

Subsequent events (Notes 6 and 10)

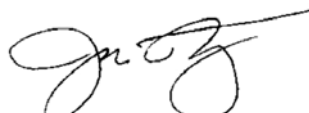
Contingencies and Commitments (Notes 6 and 15)

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

These financial statements were approved by the Board of Directors and authorized for issue on March 22, 2013 and were signed on its behalf:



Rudi P. Fronk
Director



James S. Anthony
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(Expressed in thousands of Canadian dollars except common share and per common share amounts)

	2012	2011
Corporate and administrative expenses (Note 11)	(15,832)	(19,840)
Impairment of marketable securities (Note 5)	(1,216)	—
Gain on disposition of mineral property (Note 6)	1,076	—
Gain on sale of marketable securities	—	154
Loss on convertible debenture	—	(758)
Interest income	412	653
Finance expense	(41)	(25)
Other income - flow-through shares (Note 10)	5,739	195
Foreign exchange (loss) gain	(23)	21
Loss before income taxes	(9,885)	(19,600)
Current income tax expenses (Note 14)	(46)	—
Deferred Income tax expenses (Note 14)	(2,578)	(498)
Loss for the year	(12,509)	(20,098)
Other comprehensive loss, net of income taxes:		
Unrecognized gain (loss) on financial assets	260	(937)
Comprehensive loss for the year	(12,249)	(21,035)
Basic and diluted net loss per Common Share	(0.29)	(0.48)
Basic weighted-average number of common shares outstanding	43,620,685	41,950,424

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars)

	Share Capital	Stock Options	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
As at January 1, 2012	239,662	18,291	327	(40,828)	(90)	217,362
Shares – exercise of options	411	(148)	–	–	–	263
Stock-based compensation	–	10,691	–	–	–	10,691
Cancelled options	–	(3,033)	3,033	–	–	–
Expired options	–	(2,450)	2,450	–	–	–
Issuance of shares	32,883	–	–	–	–	32,883
Share issuance costs	(1,668)	–	–	–	–	(1,668)
Deferred tax	1,248	–	–	–	–	1,248
Other comprehensive loss	–	–	–	–	260	260
Net loss	–	–	–	(12,509)	–	(12,509)
As at December 31, 2012	272,536	23,351	5,810	(53,337)	170	248,530
As at January 1, 2011	188,385	5,028	283	(20,730)	847	173,813
Shares – exercise of options	5,429	(1,610)	–	–	–	3,819
Expired options	–	(44)	44	–	–	–
Private placement	45,848	–	–	–	–	45,848
Stock-based compensation	–	14,917	–	–	–	14,917
Other comprehensive loss	–	–	–	–	(937)	(937)
Net loss	–	–	–	(20,098)	–	(20,098)
As at December 31, 2011	239,662	18,291	327	(40,828)	(90)	217,362

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

	2012	2011
Operating activities		
Net loss	(12,509)	(20,098)
Items not affecting cash:		
Impairment of marketable securities	1,216	—
Gain on disposition of mineral property	(1,076)	—
Stock-based compensation	10,691	14,917
Other income – flow-through shares	(5,739)	(195)
Deferred income taxes	2,578	498
Finance expense	28	25
Depreciation	13	31
Gain on sale of marketable securities	—	(154)
Loss on convertible debenture	—	758
Accretion of convertible debenture	—	(74)
Changes in non-cash working capital items		
Amounts receivable and prepaid expenses	(679)	1,899
Accounts payable and accrued liabilities	1,273	(791)
Taxes payable	19	(44)
Net cash used in operating activities	(4,185)	(3,228)
Investing activities		
Mineral interests	(48,716)	(41,305)
Redemption of short-term deposits	6,142	(17,567)
Cash proceeds from property recoveries	1,320	—
Redemption of reclamation deposit	35	—
Investing in marketable securities	—	(2,750)
Long-term guaranteed investment	—	11,000
Purchase of fixed assets	(8)	—
Proceeds from disposal of marketable securities	—	830
Proceeds from disposal of property and equipment	—	3
Net cash used in investing activities	(41,227)	(49,789)
Financing activities		
Issue of share capital	40,633	59,036
Net increase (decrease) in cash during the year	(4,779)	6,019
Cash and cash equivalents, beginning of the year	7,063	1,044
Cash and cash equivalents end of the year	2,284	7,063

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012 and December 31, 2011

1. Reporting entity

Seabridge Gold Inc. is comprised of Seabridge Gold Inc. (the “Company”) and its subsidiaries and is a development stage company engaged in the acquisition and exploration of gold properties located in North America. The Company was incorporated under the laws of British Columbia, Canada on September 4, 1979 and continued under the laws of Canada on October 31, 2002. Its common shares are listed on the Toronto Stock Exchange trading under the symbol “SEA” and on the New York Stock Exchange under the symbol “SA”. The Company is domiciled in Canada, the address of its registered office is 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5 and the address of its corporate office is 106 Front Street East, 4th Floor, Toronto, Ontario, Canada M5A 1E1.

2. Statement of compliance and basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These financial statements were authorized for issuance by the Board of Directors of the Company on March 22, 2013.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of available for sale financial assets, classified as fair value through profit and loss which are measured at fair value.

(b) Basis of consolidation – Subsidiaries

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible, are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash generating units. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest’s proportionate share of the fair value of the acquiree’s net identifiable assets.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in the consolidated statement of operations.

Where a business combination is achieved in stages, previously held equity interests in the acquiree are re-measured at acquisition-date fair value and any resulting gain or loss is recognized in the consolidated statement of operations. Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

(c) Translation of foreign currencies

These consolidated financial statements are presented in Canadian dollars, which is the Company's, and each of its subsidiary's, functional currency.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of operations.

Monetary assets and liabilities of the Company denominated in a foreign currency are translated into Canadian dollars at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average exchange rates prevailing during the period. Exchange gains and losses are included in the determination of profit or loss for the year.

(d) Critical accounting judgments and estimation uncertainty

In applying the Company's accounting policies in conformity with IFRS, management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

(I) CRITICAL ACCOUNTING JUDGMENTS

The following are the critical judgments, that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements (refer to appropriate accounting policies for details).

(a) Mineral reserves and resources

To calculate reserves and resources, the Company uses assumptions and evaluates technical, economic and geological conditions for each ore body. Measured grade of the ore and its metallurgy can have a significant effect on the carrying value of mineral properties and therefore the recoverability costs. Future market prices for gold and copper are also factored into valuation models. Changes to these factors can affect the recoverability of mineral properties and impairment thereto.

(b) Impairment of assets

When there has been a decline in the fair value of an investment in marketable securities that the Company has judged to be other than a temporary decline, the investment is written down to fair value and the loss is recognized in the statement of operations. For mineral properties, should the Company decide to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment at that time.

(II) KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Mineral properties

The recoverability of the carrying value of mineral properties and associated deferred exploration expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

(b) Asset retirement obligations

The provision for asset retirement obligations is the best estimate of the present value of the future costs of reclaiming the environment that has been subject to disturbance through exploration activities or historical mining activities. The Company uses assumptions and evaluates technical conditions for each project that have inherent uncertainties, including changes to laws and practices and to changes in the status of the site from time-to-time. The timing and cost of the rehabilitation is also subject to uncertainty. These changes, if any, are recorded on the statement of financial position as incurred.

(c) Share-based payments

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain and the model has its limitations.

(d) Deferred Income taxes

The Company has net assets in Canada and the United States and files corporate tax returns in each. Deferred tax liabilities are estimated for tax that may become payable in the future. Future payments could be materially different from our estimated deferred tax liabilities. We have deferred tax assets related to non-capital losses and other deductible temporary differences. Deferred tax assets are only recognized to the degree that it shelters tax liabilities or when it is probable that we will have enough taxable income in the future to recover them.

(e) Cash and cash equivalents and short-term deposits

Cash and cash equivalents and short-term deposits consist of balances with banks and investments in money market instruments. These instruments are carried at fair value through profit or loss. Cash and cash equivalents consist of investments with maturities of up to 90 days at the date of purchase. Short-term deposits consist of investments with maturities from 91 days to one year at the date of purchase.

(f) Marketable securities

Investments in marketable securities accounted for as available for sale securities are recorded at fair value. The fair values of the investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations. Increases or decreases in the market value of investments are recorded in other comprehensive income net of related income taxes. When there has been a loss in the value of an investment in marketable securities that is determined to be other than a temporary decline, the investment is written down and the loss is recorded in the statement of operations.

(g) Mineral interests

Mineral resource properties are carried at cost. The Company considers exploration and development costs and expenditures to have the characteristics of property, plant and equipment and, as such, the Company capitalizes all exploration costs, which include license acquisition costs, advance royalties, holding costs, field exploration and field supervisory costs and all costs associated with exploration and evaluation activities relating to specific properties as incurred, until those properties are determined to be economically viable for mineral production. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to activities in a particular area of interest.

Once a project has been established as commercially viable and technically feasible, related development expenditure are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial operations.

The actual recovery value of capitalized expenditures for mineral properties and deferred exploration costs will be contingent upon the discovery of economically viable reserves and the Company's financial ability at that time to fully exploit these properties or determine a suitable plan of disposition.

When a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment, reclassified to development properties, and then amortized over the life of the reserves associated with the area of interest once mining operations have commenced.

(h) Property and equipment

Property and equipment are stated at cost, less accumulated amortization and accumulated impairment losses. The cost of property and equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with the asset. Depreciation is provided using the straight-line method at an annual rate of 20% from the date of acquisition. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

(i) Impairment of non-financial assets

The carrying value of the Company's mineral interests is assessed for impairment when indicators of such impairment exist. Property and equipment is assessed for impairment at the end of each reporting period. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated to determine the extent of the impairment loss, if any. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment is determined on an asset by asset basis, whenever possible. If it is not possible to determine impairment on an individual asset basis, then impairment is considered on the basis of a cash generating unit ("CGU"). CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other group of assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged immediately to the statement of comprehensive loss so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognized in the statement of comprehensive loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive loss.

(j) Reclamation liabilities

Provisions for environmental restoration are recognized when: (i) the Company has a present legal or constructive obligation as a result of past exploration, development or production events; (ii) it is probable that an outflow of resources will be required to settle the obligation; (iii) and the amount has been reliably estimated. Provisions do not include any additional obligations which are expected to arise from future disturbance.

Costs are estimated on the basis of a formal report and are subject to regular review.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When estimates of obligations are revised, the present value of the changes in obligations is recorded in the period by a change in the obligation amount and a corresponding adjustment to the mineral interest asset.

The amortization or 'unwinding' of the discount applied in establishing the net present value of provisions due to the passage of time is charged to the statement of operations in each accounting period.

The ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result there could be significant adjustments to the provisions for restoration and environmental cleanup, which would affect future financial results.

Funds on deposit with third parties to provide for reclamation costs are included in reclamation deposits on the balance sheet.

(k) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax is not recognized for the following temporary differences; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill which is not deductible for tax purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company has certain non-monetary assets and liabilities for which the tax reporting currency is different from its functional currency. Any translation gains or losses on the remeasurement of these items at current exchange rates versus historic exchange rates that give rise to a temporary difference is recorded as a deferred tax asset or liability.

(l) Stock-based compensation

The Company applies the fair value method for stock-based compensation and other stock-based payments. The fair value of these options are valued using the Black Scholes option-pricing model and other models for the two-tiered options as may be appropriate. The grant date fair value of stock-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date (Note 10). The Company reviews estimated forfeitures of options on an ongoing basis.

(m) Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through common shares. The tax deductibility of qualifying expenditures is transferred to the investor purchasing the shares. Consideration for the transferred deductibility of the qualifying expenditures is often paid through a premium price over the market price of the Company's shares. The Company reports this premium as a liability on the statement of financial position and the balance is reported as share capital. At each reporting period, and as qualifying expenditures have been incurred, the liability is reduced on a proportionate basis and income is recognized in the statement of operations.

(n) Net profit (loss) per common share

Basic profit (loss) per common share is computed based on the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share which assumes that stock options with an exercise price lower than the average quoted market price were exercised at the later of the beginning of the year, or time of issue. Stock options with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted profit per share as the effect is anti-dilutive.

(o) Financial assets and liabilities

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

The Company's financial instruments are comprised of the following:

FINANCIAL ASSETS:

Cash and cash equivalents
Short-term deposits
Amounts receivable
Marketable securities
Convertible debenture – debt component
Convertible debenture – option component
Reclamation deposits

CLASSIFICATION:

Fair value through profit or loss
Fair value through profit or loss
Loans and receivables
Available for sale
Loans and receivables
Fair value through profit or loss
Fair value through profit or loss

FINANCIAL LIABILITIES:

Accounts payable and other liabilities

CLASSIFICATION:

Other financial liabilities

(i) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

(ii) LOANS AND RECEIVABLES:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of operations when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(iii) AVAILABLE FOR SALE INVESTMENTS:

Financial assets classified as available for sale are measured at fair value, with changes in fair values recognized in other comprehensive income, except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in other comprehensive income is recognized within the consolidated statement of operations.

(iv) FAIR VALUE:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

LEVEL 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

LEVEL 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.

LEVEL 3: Inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Company's financial assets measured at fair value, as at December 31, 2012 and December 31, 2011, which include cash and cash equivalents, short-term deposits and marketable securities are classified as a Level 1 measurement.

(v) IMPAIRMENT OF FINANCIAL ASSETS:

Financial assets are assessed for indicators of impairment at each financial reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the instrument have been impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In the case of an impairment loss reversal being recorded for available for sale marketable securities, the reversal is recorded in other comprehensive income.

(p) Accounting standards issued but not yet applied

IFRS 9, *Financial Instruments* (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on the financial statements.

IFRS 10 *Consolidated Financial Statements* (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company will adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the impact of IFRS 10 on its financial statements to be significant.

IFRS 11, *Joint Arrangements* (“IFRS 11”) replaces the guidance in IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 requires classification of interests in joint arrangements as either joint operations or joint ventures. For a joint operation, assets, liabilities, revenues and expenses are recognized and for a joint venture, the equity method is applied. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value, including any allocation of goodwill, into a single investment balance at the beginning of the earliest period presented. The investment’s opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the impact of IFRS 11 on its financial statements to be significant.

IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the impact of this standard on its financial statements to be significant.

IFRS 13, *Fair Value Measurement* was issued by the IASB on May 12, 2011. The new standard provides a single source of guidance of how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company does not expect the impact of IFRS 13 on its financial statements to be significant.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* was issued by the IASB on October 20, 2011. The new standard addresses accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current stripping activity asset. The standard also provides guidance for the amortization and impairment of such assets. The standard is effective for annual periods beginning on or after January 1, 2013, although earlier application is permitted. Given the development stage of the Company’s projects, the impact of IFRIC 20 on its consolidated financial statements will not be significant.

4. Cash and cash equivalents and short-term deposits

(\$000's)	December 31, 2012	December 31, 2011
Cash and cash equivalents	2,284	7,063
Short-term deposits	41,099	47,241
	43,383	54,304

Short-term deposits consist of Canadian Schedule I bank guaranteed notes with terms from 91 days up to one year but are cashable in whole or in part with interest at any time to maturity. All of the cash is held in a Canadian Schedule I bank.

5. Marketable securities

The Company holds common shares of several mining companies that were received as consideration for optioned mineral properties, among other investments. These available for sale financial assets are recorded at fair value on the statements of financial position. In 2012, the Company determined that several of the investments were impaired and a \$1.2 million (2011 – nil) charge to the statement of operations was recorded.

6. Mineral interests

Mineral interest expenditures on projects are considered as exploration and evaluation. All of the projects have been evaluated for impairment and their related costs consist of the following:

(\$000's)	Balance January 1, 2012	Expenditures 2012	Recoveries 2012	Balance December 31, 2012
KSM	110,458	33,117	(2,722)	140,853
Courageous Lake	45,255	15,575	–	60,830
Nevada Projects	5,116	–	(2,234)	2,882
Grassy Mountain	3,359	23	–	3,382
Red Mountain	2,654	69	(2,723)	–
Quartz Mountain	369	–	(255)	144
	167,211	48,784	(7,904)	208,091

(\$000's)	Balance January 1, 2011	Expenditures 2011	Recoveries 2011	Balance December 31, 2011
KSM	86,782	27,589	(3,913)	110,458
Courageous Lake	32,028	13,227	–	45,255
Nevada Projects	5,000	163	(47)	5,116
Grassy Mountain	4,029	70	(740)	3,359
Red Mountain	2,411	243	–	2,654
Quartz Mountain	480	13	(124)	369
	130,730	41,305	(4,824)	167,211

Continued exploration of the Company's mineral properties is subject to certain lease payments, project holding costs, rental fees and filing fees.

a) KSM (Kerr-Sulphurets-Mitchell)

In 2001, the Company purchased a 100% interest in contiguous claim blocks in the Skeena Mining Division, British Columbia. The vendor maintains a 1% net smelter royalty interest on the project, subject to maximum aggregate royalty payments of \$4.5 million. The Company is obligated to purchase the net smelter royalty interest for the price of \$4.5 million in the event that a positive feasibility study demonstrates a 10% or higher internal rate of return after tax and financing costs.

In 2002, the Company optioned the property to Noranda Inc. (which subsequently became Falconbridge Limited and then Xstrata plc.) which could earn up to a 65% interest by incurring exploration expenditures and funding the cost of a feasibility study.

In April 2006, the Company reacquired the exploration rights to the KSM property in British Columbia, Canada from Falconbridge Limited. On closing of the formal agreement in August 2006, the Company issued Falconbridge 200,000 common shares of the Company with a deemed value of \$3,140,000 excluding share issue costs. The Company also issued 2 million warrants to purchase common shares of the Company with an exercise price of \$13.50 each. The 2,000,000 warrants were exercised in 2007 and proceeds of \$27,000,000 were received by the Company.

In July 2009, the Company agreed to acquire various mineral claims immediately adjacent to the KSM property for further exploration and possible mine infrastructure use. The terms of the agreement required the Company to pay \$1 million in cash, issue 75,000 shares and pay advance royalties of \$100,000 per year for 10 years commencing on closing of the agreement. The property is subject to a 4.5% net smelter royalty from which the advance royalties are deductible. The purchase agreement closed in September 2009, with the payment of \$1 million in cash, the issuance of 75,000 shares valued at \$2,442,750 and the payment of the first year's \$100,000 advance royalty.

In February 2011, the Company acquired a 100% interest in adjacent mineral claims mainly for mine infrastructure purposes for a cash payment of \$675,000, subject to a 2% net smelter returns royalty.

On June 16, 2011, the Company completed an agreement granting a third party an option to acquire a 1.25% net smelter royalty on all gold and silver production sales from KSM for a payment equal to the lesser of \$100 million or US\$125 million. The option is exercisable for a period of 60 days following the announcement of receipt of all material approvals and permits, full project financing and certain other conditions for the KSM project. The option was conditional on the optionee subscribing for \$30 million of the Company's shares at a premium to market of 15%. The financing was completed on June 29, 2011. The 15% premium derived from the option agreement for the NSR, was determined to be \$3.9 million (\$3.84 per share for 1,019,000 shares) which was recorded as a credit to mineral properties on the statement of financial position in 2011. The optionee also held an option to purchase an additional \$18 million of the Company's shares, and exercised that option in December 2012, at a 15% premium to the market price of the shares at that time. The premium derived from the option agreement for the NSR on this transaction was determined to be \$2.4 million (\$2.41 per share for 1,004,491 shares) which was recorded as a credit to mineral properties on the statement of financial position in 2012.

Per the original agreement, the Company entered into an agreement to grant an additional 0.75% net smelter royalty on all gold and silver production sales from KSM for a payment equal to the lesser of \$60 million or US\$75 million.

In 2012, the Company incurred \$33.1 million in exploration costs at KSM while completing an updated preliminary feasibility study and substantially completing an application for environmental assessment. The final application for environmental assessment was made subsequent to the year-end.

b) Courageous Lake

In 2002, the Company purchased a 100% interest in the Courageous Lake gold project from Newmont Canada Limited and Total Resources (Canada) Limited ("the Vendors") for US\$2.5 million. The Courageous Lake gold project consists of mining leases located in Northwest Territories of Canada.

In 2004, an additional property was optioned in the area. Under the terms of the agreement, the Company paid \$50,000 on closing and was required to make option payments of \$50,000 on each of the first two anniversary dates and subsequently \$100,000 per year. In addition, the property may be purchased at any time for \$1,250,000 with all option payments being credited against the purchase price.

In 2012, the Company incurred \$15.6 million in exploration costs and completed an updated mineral resource at the project.

c) Nevada Projects

In June 2011, the Company entered into a letter of intent with Golden Predator Corp. pursuant to which the Company and Golden Predator Corp., would contribute a portfolio of mineral properties into a new private company called Wolfpack Gold Corp. ("Wolfpack"). The letter of intent was superseded by definitive agreements executed in June 2012. The transaction was closed on June 26, 2012 and certain properties were transferred to Wolfpack, from the Company, while others were optioned. In total, 5,506,500 shares of Wolfpack were received as consideration for the optioned and transferred properties. Under the agreement, Seabridge granted to Wolfpack an option to purchase 100% of its lease interest in the Castle Black Rock property located in Esmerelda County, Nevada. To exercise this option, Wolfpack will issue to Seabridge an aggregate of 7,000,000 common shares of Wolfpack over a three-year period, of which 840,000 shares were received on closing in June 2012. If Wolfpack exercises the option, Seabridge will retain a 1% net profits royalty in the Castle Black Rock Property.

Also under the agreement, Seabridge granted to Wolfpack an option to purchase 100% of its interest in the Four Mile Basin Property located in Nye County, Nevada. To exercise this option, Wolfpack will issue to Seabridge an aggregate minimum of 3,000,000 Wolfpack shares over a three year-period, of which, 360,000 shares were received on closing in June 2012. If Wolfpack exercises the option, Seabridge will retain a 2% net smelter returns royalty on precious metals and a 1% net smelter returns royalty in respect of all other mineral derived from the Four Mile Basin Property. Seabridge has an obligation to pay 10% of the proceeds received under this option to a third party. Therefore, Seabridge will retain a minimum of 2,700,000 Wolfpack shares and a 1.8% net smelter returns royalty on precious metals and a 0.9% net smelter returns royalty in respect of all other minerals after complying with this obligation.

In addition, under the executed agreement, Seabridge granted to Wolfpack an option to purchase 100% of its interest in the Liberty Springs Property located in Nye County, Nevada. To exercise this option, Wolfpack will issue to Seabridge an aggregate minimum of 2,500,000 Wolfpack Shares over a three-year period, of which 300,000 Wolfpack shares were received on closing in June 2012. The actual number of Wolfpack shares to be issued to Seabridge following closing is subject to upward adjustment, based on future value protection formulae, and hence, these share amounts should be viewed as the minimum number of Wolfpack shares to be issued to maintain and fulfill the option. If Wolfpack exercises the option, Seabridge will retain a 2% net smelter returns royalty on precious metals and a 1% net smelter returns royalty in respect of all other minerals derived from the Property. Seabridge has an obligation to pay 10% of the proceeds received under this option to a third party. Therefore, Seabridge will retain a minimum of 2,250,000 Wolfpack shares and a 1.8% net smelter returns royalty on precious metals and a 0.9% net smelter returns royalty in respect of all other minerals after complying with this obligation.

Under the agreement, Seabridge sold to Wolfpack its interests in the several other properties located in Nevada for 4,500,000 Wolfpack shares. Seabridge will retain a 2% net smelter returns royalty on precious metals and a 1% net smelter returns royalty in respect of all other minerals derived from these properties, except that in the case of properties already subject to an underlying royalty, Seabridge will only retain a 1% net profits royalty. Seabridge had an obligation to pay 10% of the proceeds received under the acquisition of most of these properties to a third party. Accordingly, Seabridge retained 4,072,500 Wolfpack shares and either a 1.8% net smelter returns royalty on precious metals and a 0.9% net smelter returns royalty in respect of all other minerals or a 0.9% net profits royalty after complying with this obligation.

The fair value of the 5,560,500 shares received on closing has been recorded as a recovery of the carrying value of the Nevada projects. As Wolfpack and the Company currently have common members of the Board of Directors and senior management personnel, the two companies are deemed related parties.

d) Grassy Mountain

In 2000, the Company acquired an option on a 100% interest in mineral claims located in Malheur County, Oregon, USA. During 2002, the Company paid US\$50,000 in option payments. On December 23, 2002, the agreement was amended and the Company made a further option payment of US\$300,000 and in March 2003 acquired the property for a payment of US\$600,000.

In April 2011, the Company announced that an agreement had been reached to option the Grassy Mountain project to Calico Resources Corp. ("Calico") that has been amended subsequent to the year-end. In the original agreement, in order to exercise the option, Calico was to issue to the Company (i) two million of its common shares following TSX Venture Exchange approval; (ii) four million of its common shares at the first anniversary, and (iii) eight million of its shares when the project has received the principal mining and environmental permits necessary for the construction and operation of a mine. The Company received the first two million common shares of Calico and a value of \$740,000 was recorded as a credit to the carrying value of the mineral properties. In February 2013, subsequent to the year-end, the agreement was amended to allow for an accelerated exercise of the option and Calico issued 6,433,000 common shares and 4,567,000 special warrants of Calico and acquired a 100% interest in the Grassy Mountain. Each special warrant is exercisable to acquire one additional common share of Calico for no additional consideration. The special warrants can only be exercised to the extent that, after exercise, the Company holds less than 20% of the outstanding shares of Calico. In addition, after the delivery of a National Instrument 43-101 compliant feasibility study on the project, Calico must either grant the Company a 10% net profits interest or pay the Company \$10 million in cash, at the sole election of the Company. The fair value of the shares and special warrants will be recorded as a credit to the carrying value of the mineral properties in the first quarter of 2013.

e) Red Mountain

In 2001, the Company purchased a 100% interest in an array of assets associated with mineral claims in the Skeena Mining Division, British Columbia, together with related project data and drill core, an owned office building and a leased warehouse, various mining equipment on the project site, and a mineral exploration permit which is associated with a cash reclamation deposit of \$1 million.

The Company assumed all liabilities associated with the assets acquired, including all environmental liabilities, all ongoing licensing obligations and ongoing leasehold obligations including net smelter royalty obligations on certain mineral claims ranging from 2.0% to 6.5% as well as an annual minimum royalty payment of \$50,000.

In the second quarter of 2012, the Company entered into an agreement with Banks Island Gold Ltd. to option its 100% interest in the Red Mountain Project. Under the terms of the option agreement, in order to acquire the property, Banks Island Gold must: (i) pay the Company \$100,000 on the execution of the letter of intent (ii) pay \$450,000 in cash and issue 4,000,000 of its common shares upon execution of the definitive option agreement; (iii) pay the Company a further \$450,000 in cash on or before December 15, 2012; (iv) pay the Company a further \$1,500,000 in cash on or before August 3, 2013; and (v) pay the Company a final \$9,500,000 in cash on or before February 3, 2015. In 2012, the Company received \$1 million and 4 million shares of Banks Island Gold valued at \$2.8 million. The value of cash and shares was recorded first as a recovery against the carrying value of the mineral properties, of \$2.7 million, and the excess, of \$1.1 million was recorded as a gain on disposition of mineral properties in 2012.

f) Quartz Mountain

In 2001, the Company purchased a 100% interest in mineral claims in Lake County, Oregon. The vendor retained a 1% net smelter royalty interest on unpatented claims acquired and a 0.5% net smelter royalty interest was granted to an unrelated party as a finder's fee.

In May 2009, the Company completed an option agreement on a peripheral claim portion of the Quartz Mountain property. To earn a 50% interest in that portion of the project, the optionee completed \$500,000 in exploration expenditures by December 31, 2010 and issued 200,000 shares to the Company (50,000 shares were received in 2010 and the remaining 150,000 shares were received in February 2011). The amounts received are shown as recoveries against the carrying value of the mineral interest. The optionee has the right to increase its percentage holdings to 70% by funding and completing a feasibility study within three years.

In 2011, subject to an agreement between the Company and Orsa Ventures Corp. ("Orsa") the Company has granted Orsa the exclusive option to earn a 100% interest in the main Quartz Mountain gold property and all of Seabridge's undivided 50% beneficial joint venture interest in the adjacent peripheral property mentioned above. The agreement

stipulated that Orsa would pay the Company \$0.5 million on or before the fifth day following regulatory approval of the option agreement and will make staged payments of \$5 million in cash or common shares of Orsa, at the discretion of the Company. In addition, upon the delivery of a feasibility study, Orsa must pay the Company \$15 million or provide a 2% net smelter return on production at Quartz Mountain. In 2012, the agreement was amended allowing Orsa to pay the Company 1.5 million common shares of Orsa instead of the \$0.5 million, then due. All other terms of the original agreement remain the same. The Company received the 1.5 million common shares of Orsa and \$225,000 has been recorded as a recovery of the carrying value of the property. The next payment of \$2 million in cash or equivalent common shares is due to be received in the fourth fiscal quarter of 2013.

7. Reclamation deposits

Reclamation deposits at December 31, 2012 consist of bank guaranteed deposits or cash deposited with banks or with government agencies of \$1,553,000 (December 31, 2011 – \$1,588,000) and are related to the obligation to fund future reclamation costs (See note 9).

8. Accounts payable and accrued liabilities

(\$000's)	December 31, 2012	December 31, 2011
Trade and other payables due to related parties	39	–
Other trade payables	3,889	2,842
Non-trade payables and accrued expenses	282	92
	4,210	2,934

9. Provision for reclamation liabilities

(\$000's)	December 31, 2012	December 31, 2011
Beginning of the year	1,963	1,938
Accretion	28	25
Current year adjustment	68	–
End of the year	2,059	1,963

The Company's policy on providing for reclamation obligations is described in Note 3. Although the ultimate costs to be incurred are uncertain, the Company's estimates are based on independent studies or agreements with the related government body for each project using current restoration standards and techniques. The fair value of the asset retirement obligations, as at December 31, 2012, was calculated using the total estimated undiscounted cash flows, of \$2.5 million, required to settle estimated obligations and expected timing of cash flow payments required to settle the obligations in 2022. The total estimated undiscounted cash flows as at December 31, 2011 was also \$2.5 million. The discount rate used to present value the reclamation obligations was 0.38% at December 31, 2012 (0.47% – December 31, 2011).

10. Shareholders' equity

(\$000's)	December 31, 2012	December 31, 2011
Share capital	272,536	239,662
Stock options	23,351	18,291
Contributed surplus	5,810	327
Deficit	(53,337)	(40,828)
Accumulated other comprehensive income	170	(90)
	248,530	217,362

Share capital	Shares	Amount (\$000's)
As at January 1, 2012	43,426,885	239,662
Exercise of stock options	25,000	411
Cost of raising capital	—	(1,668)
Issuance of shares	2,104,491	32,883
As at December 31, 2012	45,556,376	271,288
As at January 1, 2011	41,055,185	188,385
Exercise of stock options	352,700	5,429
Private placement	2,019,000	45,848
As at December 31, 2011	43,426,885	239,662

The Company is authorized to issue an unlimited number of preferred shares and common shares with no par value. No preferred shares have been issued or were outstanding at December 31, 2012 and December 31, 2011.

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 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 that would be accretive and meaningful to the Company. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2012. The Company considers its capital to be share capital, stock options, contributed surplus and deficit.

Common share transactions were as follows:

a) Financings

The Company closed a private placement on December 13, 2012 and issued 1,004,491 common shares at \$17.92 per share raising gross proceeds of \$18 million. This financing was the exercise of an option to the same purchaser obtained through the private placement completed in June 2011, described below. The purchase price for the shares was equal to a 15% premium over the market price of the Company's shares and provided the subscriber an option to acquire a 0.75% net smelter royalty ("NSR") on all gold and silver production sales from the KSM property for the lesser of \$60 million or US\$75 million. The option on the NSR is exercisable for a period of 60 days following the announcement of receipt of all material approvals and permits, full project financing and certain other conditions for the KSM project. As the 15% premium was derived from the option agreement for the NSR, \$2.4 million (\$2.41 per share for 1,004,491 shares) has been recorded as a recovery of mineral properties on the statement of financial position. Common shares has been credited with \$15.6 million (\$15.51 per share for 1,004,491 shares), on the statement of financial position.

On November 21, 2012 the Company closed two private placement financings and, in total, issued 1,100,000 flow-through common shares, at an average price per share of \$21.85, raising gross proceeds of \$24.0 million. The purchase price for 635,800 shares subscribed to, by residents of British Columbia, who are eligible to take advantage of provincial tax credits, was \$22.68 and represented a 44.2% premium over the market price of the Company's shares on November 21, 2012. The

purchase price for 464,200 shares subscribed to, by residents outside of British Columbia, was \$20.72 and represented a 31.7% premium over the market price of the Company's shares on the same day. The Company has renounced its ability to deduct qualifying exploration expenditures for the equivalent value of the gross proceeds of the financings and has transferred the deductibility to the purchasers of the flow-through shares. A combined premium of \$6.7 million was recognized as a liability on the statement of financial position and the balance was recorded as share capital. At each reporting period, and as qualifying expenditures are incurred, the liability is reduced on a proportionate basis and income is recognized on the statement of operations. From the date of closing to December 31, 2012, the Company incurred \$1.7 million of qualifying exploration expenditures and \$479,000 of the premium was recognized as other income on the statement of operations in the current year. Share issuance costs of \$1.7 million were incurred in relation to the offering and have been included in equity.

The Company has committed to spend the remaining \$22.3 million on qualifying expenditures over a twelve month period beginning on January 1, 2013. At each reporting period, as qualifying expenditures have been incurred, the liability will be reduced on a proportionate basis and income will be recognized in the statement of operations.

On December 6, 2011 the Company closed two private placement financings of 500,000 flow-through common shares each, at an average price per share of \$27.35, raising gross proceeds of \$27.4 million. For tax purposes, the Company has renounced its ability to deduct qualifying exploration expenditures for the equivalent value of the gross proceeds of the financings and has transferred the deductibility to the purchasers of the flow-through shares. A combined premium of \$5.5 million was recognized as a liability on the statement of financial position and the balance was recorded as share capital. As qualifying expenditures were incurred, in 2012, the liability was reduced on a proportionate basis and income was recognized in the statement of operations. From the date of closing to December 31, 2011, the Company incurred \$976,000 of qualifying exploration expenditures and \$195,000 of the premium was recognized as other income on the statement of operations in that year. The Company has spent the remaining \$26.4 million on qualifying expenditures in 2012. The full liability related to this financing has been reduced and charged to the statement of operations in 2012. Share issuance costs of \$1.5 million were incurred in relation to the offering and have been included in equity.

On June 29, 2011, the Company closed a private placement financing of 1,019,000 common shares at \$29.44 per share raising gross proceeds of \$30 million. The purchase price for the shares was equal to a 15% premium over the market price of the Company's shares and provided the subscriber an option to acquire a 1.25% net smelter royalty on all gold and silver production sales from the KSM property for the lesser of \$100 million or US\$125 million. The option is exercisable for a period of 60 days following the announcement of receipt of all material approvals and permits, full project financing and certain other conditions for the KSM project. As the 15% premium was derived from the option agreement for the NSR, \$3.9 million (\$3.84 per share for 1,019,000 shares) has been recorded as a recovery of mineral properties on the statement of financial position. Common shares has been credited with \$26.1 million, excluding costs (\$25.60 per share for 1,019,000 shares), on the statement of financial position. The subscriber also obtained an option to subscribe for an additional \$18 million of shares of the Company at a price equal to a 15% premium over the then market price of the shares, and in doing so, would hold an additional option to purchase an additional 0.75% NSR on the gold and silver sales of KSM. The option to subscribe for the additional shares was exercised in December 2012 (see Note 10(a)). Share issuance costs of \$0.6 million were incurred in relation to the offering and have been included in equity.

b) Stock options

The Company provides compensation to directors and employees in the form of stock options. Pursuant to the Share Option Plan, the Board of Directors has the authority to grant options, and to establish the exercise price and life of the option at the time each option is granted, at a price not less than the closing price of the Common Shares on the Toronto Stock Exchange on the date of the grant of such option and for a period not exceeding five years. All exercised options are settled in equity.

Stock option transactions were as follows:

	Options	Weighted average exercise price	Value of options (\$'000's)
Outstanding January 1, 2012	2,763,300	24.19	18,291
Granted	470,000	17.06	952
Exercised	(25,000)	10.54	(148)
Cancelled	(300,000)	29.75	(3,033)
Expired	(260,000)	29.60	(2,450)
Value of 2010 and 2011 options vested	—	—	9,739
Outstanding December 31, 2012	2,648,300	21.90	23,351
Exercisable at December 31, 2012	1,332,467		
Outstanding January 1, 2011	2,171,000	21.67	5,028
Granted	950,000	25.03	3,178
Exercised	(352,700)	10.83	(1,610)
Expired	(5,000)	29.75	(44)
Value of options granted in prior years	—	—	11,739
Outstanding December 31, 2011	2,763,300	24.19	18,291

The outstanding share options at December 31, 2012 expire at various dates between March 2013 and December 2017.

For options exercised, the weighted average share price of the Company's shares on exercise date was \$18.74 for December 31, 2012 (2011 – \$28.03).

A summary of options outstanding, their remaining life and exercise prices as at December 31, 2012 is as follows:

Exercise price	Options Outstanding		Options Exercisable	
	Number outstanding	Remaining contractual life	Number exercisable	Exercise price
\$26.64	30,000	2 months	30,000	\$26.64
\$10.54	523,300	9 months	523,300	\$10.54
\$21.88	25,000	1 year 2 months	25,000	\$21.88
\$29.75	650,000	3 years	400,000	\$29.75
\$28.80	200,000	3 years 2 months	50,000	\$28.80
\$30.42	150,000	3 years 3 months	50,000	\$30.42
\$27.39	50,000	3 years 6 months	—	\$27.39
\$21.98	550,000	4 years	254,167	\$21.98
\$21.54	25,000	4 years 3 months	—	\$21.54
\$14.70	100,000	4 years 6 months	—	\$14.70
\$17.32	180,000	4 years 9 months	—	\$17.32
\$17.52	165,000	5 years	—	\$17.52
	2,648,300		1,332,467	

In 2012, 470,000 options were granted to members of senior management that fully vest over a two-year period from the date of the grant as follows:

	Exercise price	Number of options	Fair value per option	Fair value of grant (\$'000's)	Expensed in 2012 (\$'000's)	Balance (\$'000's)
March 7, 2012	21.54	25,000	12.20	305	251	54
June 27, 2012	14.70	100,000	8.39	839	288	551
September 11, 2012	17.32	180,000	9.72	1,749	358	1,391
December 12, 2012	17.52	165,000	9.58	1,581	55	1,526
		470,000		4,474	952	3,522

The weighted average grant date fair value for the 470,000 options was \$9.52. The fair value of these options will be amortized over the estimated service term, of two years from the date of the grant. In 2012, \$1.0 million of the total fair value of \$4.5 million for these options was charged to the statement of operations. The remaining \$3.5 million will be recognized in 2013 and 2014.

Also in 2012, 260,000 options expired unexercised. The full fair value of these options had been fully expensed in prior years.

In 2011, 900,000 options were granted to members of senior management that fully vest over a two-year period from the date of the grant as follows:

	Exercise price	Number of options	Fair value per option	Fair value of grant (\$'000's)	Expensed in 2011 (\$'000's)	Expensed in 2012 (\$'000's)	Balance (\$'000's)
March 1, 2011	28.80	200,000	16.37	3,274	1,705	1,364	205
March 29, 2011	30.42	150,000	17.01	2,552	1,134	1,134	284
December 12, 2011	21.98	550,000	11.73	6,454	245	4,490	1,719
		900,000		12,280	3,084	6,988	2,208

The weighted average grant date fair value for the 900,000 options was \$13.64. Of the total fair value of \$12.3 million for these options, \$3.1 million was charged to the statement of operations in 2011 and \$7 million was charged to the statement of operations in 2012. The remaining \$2.2 million will be charged to the statement of operations in 2013.

The fair value of the options granted that vest over time is estimated on the dates of grant using a Black Scholes option-pricing model with the following assumptions:

	2012	2011
Dividend yield	Nil	Nil
Expected volatility	67%	63%-66%
Risk free rate of return	1.34%	1.3%-2.6%
Expected life of options	5 years	5 years

No other features of the option grant were incorporated into the measurement of fair value.

In 2008, 515,000 option grants to senior management and directors which were subject to performance vesting conditions that did not transpire until 2011. The full fair value of \$3.0 million was charged to the statement of operations in 2011.

In 2010, a grant of options to directors was made but had remained subject to approval by the Company's shareholders at that time. These options vest upon either the completion of an agreement to joint venture or sell one of the Company's two major projects (KSM or Courageous Lake) or a transaction resulting in a change of control of the Company or the Company's shares closing on the Toronto Stock Exchange at \$40 or higher for ten consecutive days. In 2011, \$2.1 million was charged to the statement of operations related to these options. In 2012, 300,000 of the 550,000 options were voluntarily relinquished by two directors of the Company and the amortization of the remaining fair value of those options of \$1.5 million was accelerated and fully charged to the statement of operations. Combined with the amortization of the remaining options, \$2.6 million was charged to the statement of operations in 2012. The remaining \$0.9 million will be charged to the statement of operation in 2013 and 2014.

An additional 50,000 options were granted on June 29, 2011 with the same vesting terms as the 550,000 options granted to directors above and had a fair value of \$0.6 million. In 2011, \$0.1 million was charged to the statement of operations and in 2012 \$0.2 million was similarly charged. The remaining balance of \$0.3 million will be expensed in 2013 and 2014.

Should any of the options from these two grants vest earlier than the duration of the estimated service term, the remaining balance will be charged to the statement of operations. A Monte Carlo simulation method was used to fair value the options. Three simulations were prepared and the average results were used to fair value the options and estimated time to vest. Where volatility has been used in valuing the Company's stock options, the historical volatility of the Company's shares is used. Assumptions relating to the forecasted stock prices were as follows:

	2011	2010
Dividend yield	Nil	Nil
Expected volatility	45.24%	45.00%
Risk free rate of return	2.47%	2.35%

Subsequent to December 31, 2012, 665,000 five-year options were granted to the directors of the Company at a price of \$12.60. This grant is subject to shareholder approval and vesting is subject to the earlier of a major transaction on one of the Company's two core assets or receipt of environmental assessment and environmental impact statement certificates for the KSM project. An additional 40,000 five-year options were granted to an employee of the Company at \$12.60. These options vest over a two-year period. The fair value of these options will be estimated in 2013 and amortized over the expected service life of the options.

11. Corporate and administrative expenses

(\$000's)	2012	2011
Employee expenses	3,296	2,586
Stock-based compensation	10,691	14,917
Professional fees	540	575
General and administrative	1,305	1,762
	15,832	19,840

12. Related party disclosures

Compensation to directors and officers of the Company:

(\$000's)	2012	2011
Compensation of directors:		
Directors fees	260	231
Consulting fees	87	36
Stock-based compensation	840	1,766
	1,187	2,033
Compensation of key management personnel:		
Salaries and consulting fees	2,681	2,578
Stock-based compensation	6,097	10,098
	8,778	12,676
Total remuneration of directors and key management personnel	9,965	14,709

As at December 31, 2012, \$39,000 in liabilities to related parties remained outstanding. (December 31, 2011 – Nil).

During the year ended December 31, 2012, a private company controlled by a director of the Company was paid \$87,000 (2011 – \$35,600) for technical services provided by his company related to mineral properties; a private company controlled by a second director was paid \$343,750 (2011 – \$337,500) for corporate consulting fees for services rendered; and a third director was paid \$27,200 (2011 – \$15,800) for geological consulting. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Financial instruments

The Company's financial risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to short-term deposits, and receivables included in amounts receivable and prepaid expenses. The Company has no significant concentration of credit risk arising from operations. Short-term deposits consist of Canadian Schedule I bank guaranteed notes, with terms up to one year but are cashable in whole or in part with interest at any time to maturity, for which management believes the risk of loss to be remote. Financial instruments included in amounts receivable and prepaid expenses consist of harmonized sales tax due from the Federal Government of Canada. Management believes that the risk of loss with respect to financial instruments included in amounts receivable and prepaid expenses to be remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2012, the Company had cash and cash equivalents and short-term deposits balances of \$43.3 million (December 31, 2011 – \$54.3 million) for settling current liabilities of \$4.2 million (December 31, 2011 – \$2.9 million). The short-term deposits are in various guaranteed investment securities with maturities to December 10, 2013 but are cashable in whole or in part with interest at any time to maturity. All of the Company's current financial liabilities have contractual maturities of 30 days and are subject to normal trade terms.

Market risk

(a) INTEREST RATE RISK

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in Canadian bank guaranteed notes (short-term deposits). The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The short-term deposits can be cashed in at any time and can be reinvested if interest rates rise.

(b) FOREIGN CURRENCY RISK

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian and US dollars. The Company funds certain operations, exploration and administrative expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. In 2010, the Company sold its remaining interest in the Mexican property Noche Buena at a profit, which attracted income taxes payable in Mexican pesos. The income taxes were paid in December 2010 and there is no further exposure to the Mexican peso currency. Management believes the foreign exchange risk derived from currency conversions is not significant to its operations and therefore does not hedge its foreign exchange risk.

(c) MARKETABLE SECURITIES RISK

The Company has investments in other publicly listed exploration companies which are included in marketable securities. These shares were received as part of option payments on certain exploration properties the Company owns as well as \$2.5 million in gold exchange traded receipts. The risk on these investments is significant due to the nature of the investment but the amounts are not significant to the Company.

Sensitivity analysis

The Company has designated its cash and cash equivalents and short-term deposits as fair value through profit or loss and these instruments are measured at fair value. Financial instruments included in amounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2012 and December 31, 2011, the fair value of the Company's financial instruments approximates their carrying values.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a year:

- (i) Short-term deposits have terms from 30 days to one year. The investments held at December 31, 2012 are held in GICs and savings accounts cashable at any time in whole or in part with interest. Sensitivity to a plus or minus 0.25% change in rates would affect income by approximately \$103,000 on an annualized basis.
- (ii) At December 31, 2012, the Company had net current assets in US dollars of approximately \$46,000 (December 31, 2011 – net assets of \$240,000), for which a 10% appreciation in US exchange rates, would affect net loss by approximately \$5,000.
- (iii) Price risk is remote since the Company is not a producing entity.

14. Income taxes

Components of tax expense

The following table shows the components of current and deferred tax:

(\$000's)	December 31, 2012	December 31, 2011
Current tax expense	46	—
Deferred tax expense	2,578	498
	2,624	498

Tax recovery recognized directly in equity

(\$000's)	December 31, 2012	December 31, 2011
Financing costs	1,248	—

Rate reconciliation

The provision for income tax differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of 26.5% (2011 – 28.25%) as a result of the following:

(\$000's)	December 31, 2012	December 31, 2011
(Loss) income before income taxes	(9,885)	(19,600)
	26.50%	28.25%
Tax recovery calculated using statutory rates	(2,620)	(5,537)
Non-deductible items	2,834	4,428
Non-taxable items	(1,521)	(195)
Difference in foreign tax rates	68	92
Renouncement of flow-through expenditures	7,746	—
Movement in tax benefits not recognized	512	1,710
Recognition of deferred tax assets	(4,395)	—
Income tax expense	2,624	498

The statutory rate has decreased 1.75% due to a decrease in the federal tax rate.

Deferred income tax

The following table summarizes the components of deferred income tax:

(\$000's)	December 31, 2012	December 31, 2011
Deferred tax assets		
Marketable securities	—	197
Property and equipment	60	56
Provision for reclamation liabilities	584	690
Financing costs	1,249	—
Non-capital loss carryforwards	8,029	1,765
Deferred tax liabilities		
Mineral interests	(12,373)	(3,830)
	(2,451)	(1,122)

Unrecognized deferred tax assets

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

(\$000's)	December 31, 2012	December 31, 2011
Investment in subsidiaries	5,031	4,042
Marketable securities	892	—
Loss carry forwards	2,270	17,409
Other deductible temporary differences	497	1,821

The tax losses not recognized expire as per the amount and years noted below. The other deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit would be available against which the Company can utilize the benefits therefrom.

Income tax attributes

As at December 31, 2012, the Company had the following Canadian income tax attributes to carry forward:

	Amount (000's)	Expiry date
Canadian non-capital losses	28,265	2032
Canadian tax basis of mineral interest	161,757	Indefinite
US non-capital losses	1,538	2032
US tax basis of mineral interest	1,196	Indefinite

15. Contingencies and commitments

(\$000's)	Payments due by period				
	Total	2013	2014-15	2016-17	After 2017
Mineral interests	3,177	403	1,146	1,063	565
Flow-through expenditures	22,337	22,337	—	—	—
Business premises operating lease	561	132	264	165	—
	26,075	22,872	1,410	1,228	565

In fulfillment of agreements with subscribers of 1.1 million flow-through shares of the Company, the Company has committed to spend \$24 million on qualifying exploration expenditures over a twelve month period beginning on November 21, 2012. The Company has spent \$1.7 million to December 31, 2012 and will spend the remaining \$22.3 million in 2013.

CORPORATE INFORMATION

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D. Scott Barr

Thomas C. Dawson

Louis J. Fox

Eliseo Gonzalez-Urien

Jay S. Layman

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Rudi P. Fronk
Chief Executive Officer

Jay S. Layman
President and Chief Operating Officer

William E. Threlkeld
Senior Vice President

Christopher J. Reynolds
Vice President, Finance and Chief Financial Officer

R. Brent Murphy
Vice President, Environmental Affairs

C. Bruce Scott
Vice President, Corporate Affairs and Corporate Secretary

Gloria M. Trujillo
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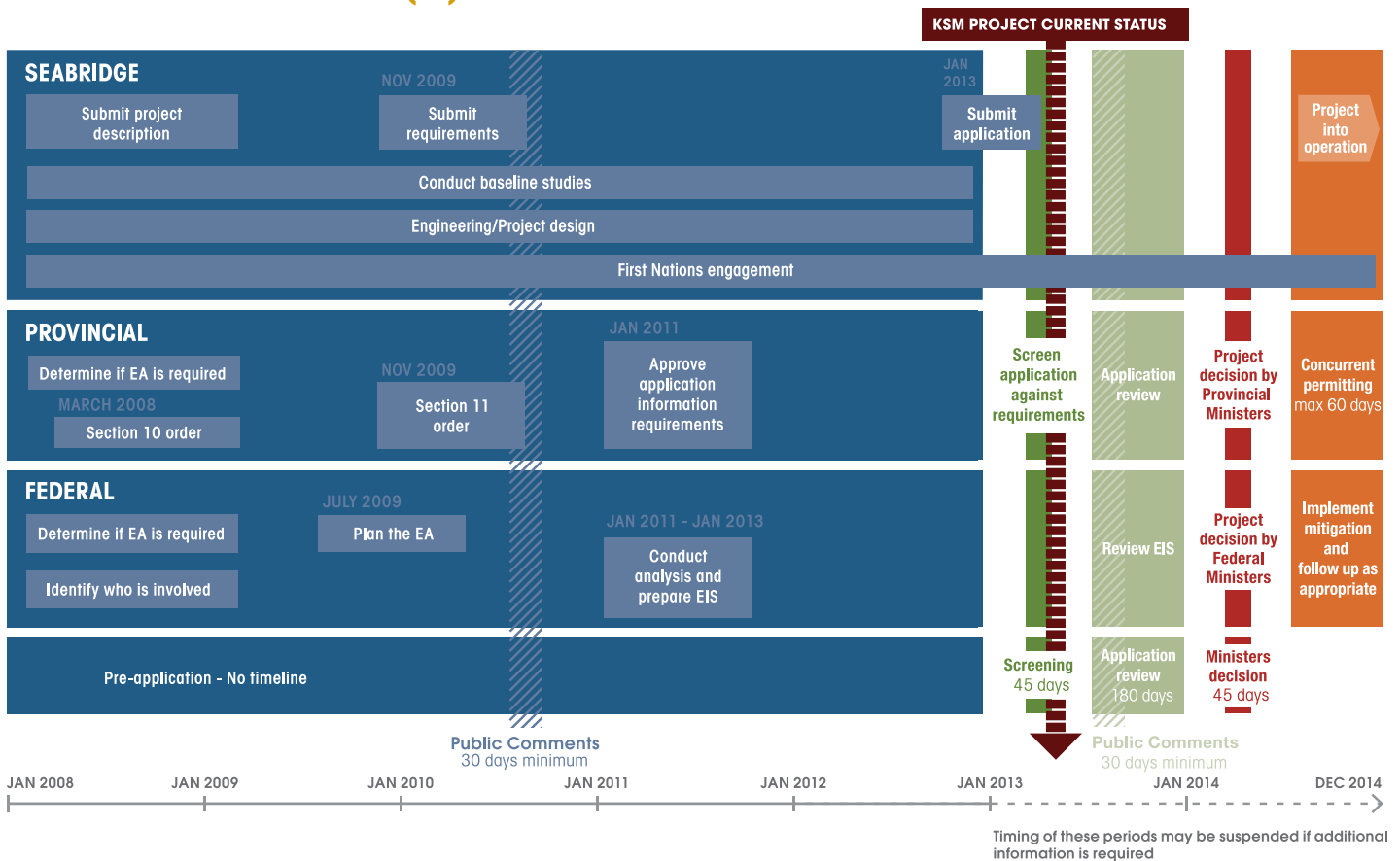
WE'RE ALMOST THERE...

With the filing of its Environmental Assessment/Environmental Impact Statement Application (EA/EIS) in February 2013, a significant milestone in the environmental assessment of the multi-generational KSM Project was achieved. The KSM Project is undergoing a joint environmental assessment as mandated by the Canadian Environmental Assessment Act and the British Columbia Environmental Assessment Act, which was initiated by Seabridge in 2008. The submission is now in the 45-day screening process which will be followed by the environmental assessment review. The process timeline consists of the following steps as shown in the Figure below:

- Pre-application Review – no mandated time constraints
- 45 day screening period;
- 180 day environmental assessment review; and,
- 45 day Ministers' decision review.

The running of these time periods may be suspended from time to time during the review process if additional information is requested. The Federal process is now bound by a 365-day approval process limit. We anticipate receiving a positive decision from Provincial and Federal Ministers by mid- 2014.

KSM Environmental Assessment (EA) Review Timeline



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