



TREASURY METALS

INCORPORATED

(An exploration stage company)

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED DECEMBER 31,
2010 AND 2009**

INDEPENDENT AUDITORS' REPORT**To the Shareholders of Treasury Metals Inc.**

We have audited the accompanying financial statements of Treasury Metals Inc., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, deficit, other comprehensive income, shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Treasury Metals Inc. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario

March 21, 2011, except as to Note 16 which is as of March 22, 2011.

TREASURY METALS INC.
(An exploration stage company)
BALANCE SHEETS
(EXPRESSED IN CANADIAN DOLLARS)

December 31,	2010	2009
Assets		
Current Assets		
Cash and cash equivalents (Note 5)	\$ 2,920,746	\$ 1,278,652
Accounts receivable and prepaid expenses	<u>247,458</u>	<u>130,702</u>
	3,168,204	1,409,354
Investments (Note 6)	2,667,218	1,750,105
Property and equipment (Note 7)	386,540	-
Mineral properties and related deferred costs (Note 8)	<u>34,770,050</u>	<u>36,461,765</u>
	<u>\$ 40,992,012</u>	<u>\$ 39,621,224</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 13)	\$ 379,999	\$ 634,301
Due to Laramide Resources Ltd. (Note 13)	2,933	3,958
Current portion of long-term debt (Note 9)	<u>22,791</u>	<u>-</u>
	405,723	638,259
Long-term debt (Note 9)	237,972	-
Future tax liability (Note 14)	<u>114,000</u>	<u>950,000</u>
	<u>757,695</u>	<u>1,588,259</u>
Shareholders' Equity		
Capital stock (Note 10)	45,813,621	41,826,205
Contributed surplus	2,549,736	1,596,841
Deficit	(8,582,574)	(3,830,100)
Accumulated other comprehensive income (loss)	<u>453,534</u>	<u>(1,559,981)</u>
	<u>40,234,317</u>	<u>38,032,965</u>
	<u>\$ 40,992,012</u>	<u>\$ 39,621,224</u>

Commitments and Contractual Obligations (Note 15)
Subsequent Events (Note 16)

SIGNED ON BEHALF OF THE BOARD

(Signed) "Doug Bache"
Director

(Signed) "Marc Henderson"
Director

TREASURY METALS INC.
(An exploration stage company)
STATEMENTS OF OPERATIONS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31	2010	2009
Revenues		
Royalty income, net	\$ 647,232	\$ 433,027
Loss on sale of investments	(309,166)	(244,937)
	<u>338,066</u>	<u>188,090</u>
Expenses		
Administrative, office and shareholder services	582,270	560,329
Professional fees	224,817	320,191
Salary and benefits	37,410	99,053
Stock-based compensation(Note 12)	800,285	544,000
Amortization	1,683	-
Write-down of mineral properties (Note 8)	4,001,141	-
Write-down of available for sale investments (Note 6(i))	528,934	-
	<u>6,176,540</u>	<u>1,523,573</u>
Loss before income taxes	(5,838,474)	(1,335,483)
Future income tax recovery (Note 14)	1,086,000	629,000
Net loss for the year	\$ (4,752,474)	\$ (706,483)
Loss per share - basic and diluted	\$ (0.13)	\$ (0.02)
Weighted average number of shares outstanding	36,649,035	30,013,495

STATEMENTS OF DEFICIT
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31	2010	2009
Deficit, beginning of year	\$ (3,830,100)	\$ (3,123,617)
Net loss for the year	(4,752,474)	(706,483)
Deficit, end of year	\$ (8,582,574)	\$ (3,830,100)

TREASURY METALS INC.
(An exploration stage company)
STATEMENTS OF OTHER COMPREHENSIVE INCOME
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31	2010	2009
Net loss for the year	\$ (4,752,474)	\$ (706,483)
Other comprehensive income		
Unrealized gain on available for sale investments	1,175,415	1,538,079
Reclassification of realized loss on available for sale investments to income	309,166	244,937
Reclassification of unrealized loss on available for sale investment to income upon write-down	528,934	-
	2,013,515	1,783,016
Comprehensive income (loss)	\$ (2,738,959)	\$ 1,076,533

TREASURY METALS INC.

(An exploration stage company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(EXPRESSED IN CANADIAN DOLLARS)

	Common Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive (Loss)	Total
Balance, December 31, 2008	26,788,715	\$ 41,637,509	\$ 543,888	\$ (3,123,617)	\$ (3,342,997)	\$ 35,714,783
Private placement-May	4,267,500	853,500	-	-	-	853,500
Flow through private placement-December	2,222,222	999,999	-	-	-	999,999
Warrants exercised	125,000	37,500	-	-	-	37,500
Issued with respect to property allocations	995,155	258,650	-	-	-	258,650
Commission on private placement non-cash	200,000	34,000	-	-	-	34,000
Share issue costs, net of future income tax benefit	-	(73,000)	-	-	-	(73,000)
Future tax liability pursuant to flow through shares renunciation	-	(1,603,000)	-	-	-	(1,603,000)
Fair value assigned to agent warrants issued	-	(45,000)	45,000	-	-	-
Fair value assigned to warrants issued	-	(291,000)	291,000	-	-	-
Fair value of issued options	-	-	734,000	-	-	734,000
Fair value of contributed surplus transferred on exercise of warrants	-	17,047	(17,047)	-	-	-
Net loss for the year	-	-	-	(706,483)	-	(706,483)
Other comprehensive income	-	-	-	-	1,783,016	1,783,016
Balance, December 31, 2009	34,598,592	41,826,205	1,596,841	(3,830,100)	(1,559,981)	38,032,965
Private placement-December	4,845,536	2,665,045	-	-	-	2,665,045
Flow through private placement-December	1,161,930	813,351	-	-	-	813,351
Proceeds from the exercise of warrants	2,172,083	680,625	-	-	-	680,625
Proceeds from the exercise of options	524,500	157,350	-	-	-	157,350
Commission on private placement non-cash	140,100	77,055	-	-	-	77,055
Share issue costs	-	(149,400)	-	-	-	(149,400)
Future tax liability pursuant to flow through shares renunciation	-	(250,000)	-	-	-	(250,000)
Fair value of contributed surplus transferred on exercise of warrants and options	-	458,233	(458,233)	-	-	-
Fair value assigned to warrants issued	-	(610,843)	610,843	-	-	-
Issued with respect to property allocations	225,065	146,000	-	-	-	146,000
Fair value of issued options	-	-	800,285	-	-	800,285
Net loss for the year	-	-	-	(4,752,474)	-	(4,752,474)
Other comprehensive income	-	-	-	-	2,013,515	2,013,515
Balance, December 31, 2010	43,667,806	\$ 45,813,621	\$ 2,549,736	\$ (8,582,574)	\$ 453,534	\$ 40,234,317

TREASURY METALS INC.
(An exploration stage company)
STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31	2010	2009
Cash and cash equivalents (used in) provided by:		
Operating Activities		
Net loss for the year	\$ (4,752,474)	\$ (706,483)
Adjustments for:		
Loss on sale of investments	309,166	244,937
Future income tax recovery	(1,086,000)	(629,000)
Stock-based compensation	800,285	544,000
Write-down of available for sale investment	528,934	-
Amortization	1,683	-
Write-down of mineral properties	4,001,141	-
	<u>(197,265)</u>	<u>(546,546)</u>
Net change in non-cash working capital items:		
Accounts receivable and prepaid expenses	(116,756)	188,982
Accounts payable and accrued liabilities	(254,300)	(10,281)
	<u>(568,321)</u>	<u>(367,845)</u>
Financing Activities		
Private placement	3,406,051	1,790,499
Warrants and options exercised	837,975	37,500
Due to Laramide Resources Ltd.	(1,025)	28,228
Payments made on mortgage	(2,548)	-
Payments made on capital lease	(2,539)	-
	<u>4,237,914</u>	<u>1,856,227</u>
Investing Activities		
Proceeds on sale of investments	258,300	644,348
Proceeds on sale of short term investments	-	9,782
Acquisition of property and equipment	(122,373)	-
Acquisition of mineral properties and related deferred costs	(2,163,426)	(1,029,708)
	<u>(2,027,499)</u>	<u>(375,578)</u>
Change in cash and cash equivalents	1,642,094	1,112,804
Cash and cash equivalents, beginning of the year	1,278,652	165,848
Cash and cash equivalents, end of the year (Note 5)	\$ 2,920,746	\$ 1,278,652

TREASURY METALS INC.
(An exploration stage company)
STATEMENTS OF CASH FLOWS (Continued)
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31	2010	2009
Supplementary cash flow information		
Changes in non cash investing activities:		
Shares issued for purchases of mineral properties	<u>\$ 146,000</u>	<u>\$ 258,650</u>
Shares issued for commission on private placement	<u>\$ 77,055</u>	<u>\$ 34,000</u>

TREASURY METALS INC.
(An exploration stage company)
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mineral Properties and Related Deferred Costs

The Company records its interest in mineral properties at cost. Direct costs relating to the acquisition, exploration and development of mineral properties, less recoveries, are deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. If the property is placed into production, deferred costs will be amortized and depleted using the straight line method over the estimated economic life of the mine. The deferred costs would be written off if the property is sold or abandoned. The amounts shown for mineral properties and related deferred costs represent costs incurred to date, less write offs and recoveries, and do not necessarily reflect present or future values of the particular properties.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand and other highly liquid short-term investments, which may be settled on demand or within a maximum 90 day period from year end to maturity.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates. Areas where management uses subjective judgment include, but are not limited to, recoverability of mineral properties and related deferred costs, future income taxes, the valuation of investments, warrants, options and amortization of property and equipment. Management believes that these estimates are reasonable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on

TREASURY METALS INC.
(An exploration stage company)
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

available evidence, it is more likely than not that they will be realized.

Loss Per Share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

Revenue Recognition

Royalty revenue consists of a 2.5% sliding production royalty ("NSR") on gold that is produced at the Cerro Colorado Gold Mine Project in Mexico. Revenue is recorded in the period the gold is sold. Interest revenue is recognized when earned and gains (losses) on sale of investments are recognized on the transaction date.

Short-term Investments

Short-term investments are liquid investments with a maturity greater than three months, but less than one year and are recorded at their cost, which approximates fair value.

Property and Equipment

Amortization is recorded using the following rates and methods:

Building	4%	Declining balance
Motor Vehicles		Straight line over five years

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. The Emerging Issues Committee of the Canadian Institute of Chartered Accountants issued EIC146, Flow-through shares, under which the Company is required to recognize the future income tax liability upon filing renunciation documents with the tax authorities and to treat it as a cost of issuing the flow-through shares.

Financial Instruments

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are held for trading are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income; financial liabilities that are not held for trading are recorded at amortized cost using the effective interest rate method and recognized in net income.

Effective January 1, 2009, Treasury Metals adopted the amendment to CICA Handbook Section 3862,

TREASURY METALS INC.
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(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial instruments, which requires disclosure about inputs to fair value measurements within fair value measurement hierarchy as follows:

- i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- ii) Level 3: inputs for the asset or liability that are not based on observable market data.

Foreign Exchange

Monetary assets and liabilities have been translated at the exchange rate prevailing at the balance sheet dates. Income and expenses are translated at rates prevailing at the dates of the related transactions. Non-monetary assets, liabilities are translated at historic rates. Losses on foreign exchange for the year are included in the statements of operations.

Stock-based Compensation

The Company applies the fair-value based method to all stock options granted and warrants issued. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed on a straight line basis over the vesting period, with the related credit included in contributed surplus. The applicable contributed surplus is transferred to share capital, if and when stock options are exercised. Any consideration paid on the exercise of stock options and warrants are credited to capital stock.

The Company uses the Black-Scholes option pricing model to determine the value of all issued options and warrants. Notes 10 and 12 summarize the assumptions used with the Black-Scholes model for determining the value of the stock-based costs for the stock options and warrants issued in 2010 and 2009.

Other Stock-based Payments

The Company accounts for other stock-based payments based on the fair value of services granted or the equity instruments issued in exchange for the receipt of goods and services from non-employees by using the stock price and other measurement assumptions at the measurement date, whichever is the more reliably measured.

Asset Retirement Obligations

The Company adopted CICA 3110, "Asset Retirement Obligations" which requires that the estimated fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The estimates used in the valuations are based primarily on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

An obligation has not been recorded with respect to asset retirement obligations (i.e. environmental remediation) for the Company's exploration and development properties. This is based on the fact that the mining and processing activities that give rise to the legal obligation have not yet occurred and/or the

TREASURY METALS INC.
(An exploration stage company)
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(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

environmental disturbance which has occurred is not yet significant.

As at December 31, 2010 and 2009, the Company has not incurred or committed any asset retirement obligations.

Transaction Costs

The Company expenses transaction costs relating to its financial instruments.

Future Accounting Pronouncements

Convergence with International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The changeover date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS is currently being evaluated.

Business Combinations, Consolidated Financial Statements and Non Controlling Interests

In October 2008, the CICA issued Sections 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests”. Section 1582 establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601 carries forward the existing Canadian GAAP guidance on aspects of the preparation of financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company in the first quarter of fiscal 2011 with earlier adoption permitted. The Company does not expect that the adoption of these new Sections will have a material impact on its financial statements.

TREASURY METALS INC.
(An exploration stage company)
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, contributed surplus, accumulated other comprehensive income (loss) and deficit, which as at December 31, 2010 totaled \$40,234,317 (December 31, 2009 - \$38,032,965).

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as short term guarantee deposits, all held with major Canadian financial institutions

4. FINANCIAL RISK FACTORS

The Company's 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 cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in other assets consist of receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments included in other assets is remote.

The Company's current policy is to invest excess cash in investment-grade short-term guarantee deposit certificates issued by its banking institutions.

TREASURY METALS INC.
(An exploration stage company)
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(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

4. FINANCIAL RISK FACTORS (Continued)

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, 2010, the Company had current assets of \$ 3,168,204 (December 31, 2009 - \$1,409,354) and current liabilities of \$ 405,723 (December 31, 2009 - \$638,259). All of the Company's financial liabilities and receivables, excepted for the long-term debt, have contractual maturities of less than one year and are subject to normal trade terms. Current working capital of the Company as of December 31, 2010, is \$ 2,762,481 (December 31, 2009 - \$771,095).

Business Risk

There are numerous business risks involved in the mineral exploration industry, some of which are outlined below. The Company's current or future operations, including development activities, are subject to environmental regulations which may make operations not economically viable or prohibit them altogether. The success of the operations and activities is dependent to a significant extent on the efforts and abilities of its management, outside contractors, experts and other advisors. Investors must be willing to rely to a significant degree on management's discretion and judgment, as well as the expertise and competence of the outside contractors, experts and other advisors. The Company does not have a formal program in place for succession of management and training of management. The loss of one or more of the key employees or contractors, if not replaced on a timely basis, could adversely affect the Company and its operations and financial performance.

Market Risk

(a) Equity Price Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is exposed to fair value fluctuations on its investments. The Company's other financial instruments (cash, accounts receivable, accounts payable and accrued liabilities) are not subject to price risk.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company had no significant currency exposure at December 31, 2010.

(c) Interest Rate Risk

The Company has long-term debt with a floating interest rate based on the Canadian prime rate. The Company had no significant interest rate risk at December 31, 2010.

TREASURY METALS INC.
(An exploration stage company)
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

4. FINANCIAL RISK FACTORS (Continued)

Sensitivity Analysis

The sensitivity analysis shown in the notes below may differ materially from actual results. Interest rate risk on cash equivalents is minimal as these have fixed interest rates.

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

- i) The Company transacts business using the Canadian dollar and the US dollar and maintains bank accounts in both currencies. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated fluctuations in the financial results of the Company. As at December 31, 2010, if foreign exchange rates had fluctuated by 10% with all other variables held constant, the loss for the year ended December 31, 2010 would be changed by \$10,700, as a result of a change in foreign exchange gain/loss from cash and cash equivalents.
- ii) The Company's investments are subject to fair value fluctuations. As at December 31, 2010, if the fair value of investments had fluctuated by 10% with all other variables held constant, comprehensive income for the year ended December 31, 2010 would have changed by \$267,000.

Fair Value Hierarchy and Liquidity Risk Disclosure

The Company has designated its cash and cash equivalents as held-for-trading and investments as available for sale, which are measured at fair value. Fair value of investments are determined based on transaction value and are categorized as Level 1 measurement. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Accounts payable and accrued liabilities, amounts due to Laramide Resources Ltd., and the long-term debt are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair value.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

TREASURY METALS INC.
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NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

5. CASH AND CASH EQUIVALENTS

The balances as at December 31, 2010 and 2009 are comprised as follows:

	2010	2009
Cash	\$ 210,746	\$ 1,268,652
Cashable GIC	2,710,000	10,000
	\$ 2,920,746	\$ 1,278,652

6. INVESTMENTS

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

	Number of Shares	December 31, 2010	Number of Shares	December 31, 2009
Vaaldiam Mining Inc. (Formerly Tiomin Resources Inc.)(i)	146,221	\$ 38,017	2,242,990	\$ 56,075
Goldgroup Mining Inc. (Formerly Sierra Minerals Inc.) (ii)	2,038,140	2,629,201	6,515,500	1,694,030
		\$ 2,667,218		\$ 1,750,105

- (i) During the year Tiomin Resources Inc. combined its shares on a 1 for 10 basis and changed its name to Vaaldiam Mining Inc. ("Vaaldiam"). Subsequently, 78,077 shares of Vaaldiam were sold during the year resulting in a realized loss of \$282,165. Also, in 2010 the Company has decided to record a permanent impairment of the Vaaldiam investments and has written down them to \$0.26 per share, resulting in a reclassification of \$528,934 out of Accumulated other comprehensive income (loss) into write-down of available for sale investment in the statements of operations.
- (ii) During the year, Sierra Minerals Inc. combined its shares on a 1 for 2.85 basis and changed its name to Goldgroup Mining Inc.

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(EXPRESSED IN CANADIAN DOLLARS)

Years Ended December 31, 2010 and 2009

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Total December 31, 2010
Land	\$ 75,565	\$ -	\$ 75,565
Building	226,695	-	226,695
Vehicles under capital lease	65,964	1,683	64,281
Other vehicles	19,999	-	19,999
	\$ 388,223	\$ 1,683	\$ 386,540

All the property and equipment assets were purchased in the year ended December 31, 2010.

8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS

As of December 31, 2010 and 2009, accumulated costs with respect to the Company's interest in mineral properties, consisted of the following:

	Balance December 31, 2009	Net Additions	Balance December 31, 2010
Goliath Gold Project	\$ 32,365,797	\$ 2,242,319	\$ 34,608,116
Lara Polymetallic Project - BC	4,095,968	(3,995,968)	100,000
Goldcliff Property	-	61,934	61,934
	\$ 36,461,765	\$ (1,691,715)	\$ 34,770,050
	Balance December 31, 2008	Net Additions	Balance December 31, 2009
Goliath Gold Project	\$ 30,960,942	\$ 1,404,855	\$ 32,365,797
Lara Polymetallic Project - BC	4,010,874	85,094	4,095,968
Cerro Colorado Gold Mine	11,591	(11,591)	-
	\$ 34,983,407	\$ 1,478,358	\$ 36,461,765

Goliath Gold Project

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

The Goliath Gold Project consists of 137 contiguous unpatented mining claims (234 units) and 19 patented land parcels. The total area of the project is approximately 5,328 hectares (~45 km²) covering portions of Hartman and Zealand townships. The project comprises two historic properties which are now consolidated: the larger Thunder Lake Property, purchased from Teck Resources ("Teck") and Corona Gold Corporation ("Corona") and the Laramide Property, transferred to the Company from Laramide Resources Ltd. ("Laramide"). The project area has been expanded from its original size through additional claim staking and land purchases/options. Certain underlying royalties and payment obligations remain on 14 of the 19 patented land parcels totaling about \$103,500 per year.

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8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS (Continued)

Goliath Gold Project (Continued)

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

Laramide Property, Ontario

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

Thunder Lake Property, Ontario

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

Brisson Property, Ontario

In December 2009, the Company acquired a 100% interest in certain parcels of land in the District of Kenora. Under the terms of the agreement, the Company is to make option payments totaling \$100,000 and issue common shares of the Company equal to \$100,000 based on the market price of the date of issue. These payments are required as follows: \$25,000 and \$25,000 worth of common shares on or before December 11, 2009; \$20,000 and \$25,000 worth of common shares on or before December 11, 2010; \$20,000 and \$25,000 worth of common shares on or before December 11, 2011; and, \$35,000 and \$25,000 worth of common shares on or before December 11, 2012. As at December 31, 2010, the Company had paid \$45,000 and issued 59,524 common shares of the Company with a market value of \$25,000. Subsequently, on January 11, 2011, the Company issued 26,041 common shares with a market value of \$25,000.

Lara Polymetallic Project, British Columbia

In 2007, the Company acquired from Laramide a 100% interest in and to the Lara Property located in the Victoria Mining Division, near Chemainus on southern Vancouver Island, British Columbia. The Lara Polymetallic Project, of which a portion was formerly owned by Laramide, comprises 47 mineral claims covering approximately 8,648 hectares (~87 km²).

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

In 2010, \$5,173 was expended in this project and no significant expenditures were considered for the future. In early 2011, annual mining leases on a significant portion of the property were not renewed. All non-recoverable costs associated with this project have been written off.

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8. MINERAL PROPERTIES AND RELATED DEFERRED COSTS (Continued)

Goldcliff Property

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

In addition to the property acquired through a property option agreement, the Company acquired through staking, 100% ownership in 24 unpatented mining claims. Some of the staked claims are subject to the one kilometre area of interest relating to each of the four optioned claims. All claims that fall within the one kilometre area of interest are subject to a 1% NSR, which can be purchased 100% by the Company for \$750,000.

Cerro Colorado Gold Mine, Mexico

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

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

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9. LONG-TERM DEBT

The present value of the long-term debt at December 31, 2010 is as follows:

	Current Portion	Long Term Portion	Total Debt
Mortgage (i)	\$ 14,890	\$ 182,562	\$ 197,452
Capital lease payable (ii)	7,901	55,410	63,311
	\$ 22,791	\$ 237,972	\$ 260,763

(i) The mortgage is related to the land and building, located on the Goliath Gold Project properties, purchased in November 2010 and consists of 120 monthly payments with annual interest rate of prime plus 3% expiring in October 2020. The details of the debt and the future payments for the following five years and beyond is as follows:

	Total
2011	\$ 14,890
2012	15,873
2013	16,923
2014	18,043
2015 and beyond	131,723
Total Mortgage	\$ 197,452

(ii) The Capital lease payable consists of 2 lease agreements for 48 monthly payments with annual interest rate of 5.6%, expiring in August 2014. The details of the debt and the future payments for the following four years is as follows:

	Total
2011	\$ 11,163
2012	11,163
2013	11,163
2014	39,632
Total future minimum payments	73,121
Less: amount representing interest	(9,810)
Present value of capital lease payable	\$ 63,311

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10. CAPITAL STOCK

- a) AUTHORIZED
 Unlimited common share
 b) ISSUED

	Number of Shares	Stated Value
COMMON SHARES		
Balance, December 31, 2008	26,788,715	\$ 41,637,509
Private placement-May	4,267,500	853,500
Flow through private placement-December	2,222,222	999,999
Warrants exercised	125,000	37,500
Issued with respect to property allocation	995,155	258,650
Commission on private placement, non-cash	200,000	34,000
Share issue costs, net of future income tax benefits	-	(73,000)
Future tax liability pursuant to flow through shares renunciation	-	(1,603,000)
Fair value assigned to agent warrants issued	-	(45,000)
Fair value assigned to warrants issued	-	(291,000)
Fair value of contributed surplus transferred on exercise of warrants	-	17,047
Balance, December 31, 2009	34,598,592	41,826,205
Private placement-December	4,845,536	2,665,045
Flow through private placement-December	1,161,930	813,351
Proceeds from the exercise of warrants	2,172,083	680,625
Proceeds from the exercise of options	524,500	157,350
Commission on private placement, non-cash	140,100	77,055
Share issue costs	-	(149,400)
Future tax liability pursuant to flow through shares renunciation	-	(250,000)
Fair value assigned to warrants issued	-	(610,843)
Fair value of contributed surplus transferred on exercise of warrants and options	-	458,233
Issued with respect to property allocation	225,065	146,000
Balance, December 31, 2010	43,667,806	\$ 45,813,621

Private Placement – 2010

On December 2, 2010 the Company completed a non-brokered private placement (the "Offering") of 1,161,930 units (the "Flow-Through Units") of the Company at a price of \$0.70 per Flow-Through Unit and 4,845,536 units (the "Units") of the Company at a price of \$0.55 per Unit, for aggregate gross proceeds of \$3,478,396. The net proceeds of the offering are expected to be used to continue exploring and developing the Company's Goliath Gold Project and for general corporate purposes.

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10. CAPITAL STOCK (Continued)

Each Flow-Through Unit consists of one common share of the Company issued on a flow-through basis and one-half of one common share purchase warrant (a "Flow-Through Warrant"). Each whole Flow-Through Warrant entitles the holder to purchase one common share of the Company on a non-flow-through basis at an exercise price of \$1.00 for a period of 18 months from the closing date of the Offering. In the event that the common shares of the Company trade at a price per common share of \$1.50 or greater for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Flow-Through Warrants by giving notice to the holders and, in such case, the Flow-Through Warrants will expire on the 30th business day after the date on which such notice is given by the Company.

Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.70 per Warrant Share for a period of 18 months from the closing date of the Offering. In the event that the common shares of the Company trade at a price per common share of \$1.25 or greater for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders and, in such case, the Warrants will expire on the 30th business day after the date on which such notice is given by the Company.

A fair value of \$610,843 was allocated to the warrants under the Black-Scholes option pricing model using the following assumptions: dividend yield 0%; expected volatility 105.17%; a risk free interest rate of 1.68% and an expected life of 9 months. The Company paid finder's fees of \$33,330 and issued 140,100 common shares at a market price of \$0.55 per share to certain parties with respect to services provided to the Company in connection with the Offering.

Private Placement – 2009

On May 22, 2009, the Company completed a non-brokered private placement financing by issuing 4,267,500 units at a price of \$0.20 per unit for aggregate proceeds of \$853,500. Each unit consists of one common share and one-half of one common share purchase warrant of the Company expiring in an eighteen month period. Each whole warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of \$0.30. In addition, the Company paid a cash finders fee of \$3,000 and issued 200,000 common shares valued at \$34,000.

A fair value of \$291,000 was allocated to the warrants under the Black-Scholes option pricing model using the following assumptions: dividend yield 0%; expected volatility 234.40%; a risk interest free rate of 1.15% and an expected life of eighteen months.

On December 21, 2009, the Company completed a non-brokered private placement financing by issuing 2,222,222 flow-through common shares at a price of \$0.45 per flow-through common share for aggregate proceeds of \$999,999. In addition, the agent was paid a cash commission equal to 6% of the gross proceeds and was granted 133,333 finders warrants. Each finders warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of \$0.45 for two years.

A fair value of \$45,000 was allocated to the finder warrants under the Black-Scholes option pricing model using the following assumptions: dividend yield 0%; expected volatility 192.66%; a risk free interest rate of 2.6% and an expected life of nine months.

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10. CAPITAL STOCK (Continued)

Shares Issued with Respect to Property Allocations

Under the terms of the agreement to acquire the Thunder Lake Property, the Company is required to issue common shares of the Company to Corona and Teck to ensure that they maintain their ownership interests in the Company at 10% and 2.27% respectively, until such time that the Company has received \$7.5 million in private placement financings. During the year ended December 31, 2010, the Company issued 205,065 shares (December 31, 2009 – 935,631) with a fair value of \$137,400 (December 31, 2009 – \$233,650). At December 31, 2010 the Company is obliged to issue 250,746 shares under this agreement, to fulfill its obligation on the December 2010 private placements. In addition, under the terms of the Goldcliff property agreement signed in June 2010 (see note 8), the Company issued 20,000 common shares with a fair value of \$8,600 and, under the terms of the Brisson property agreement (see note 7), the Company issued in 2009 59,524 common shares with a market value of \$25,000 in 2009.

11. WARRANTS

The following table reflects the continuity of warrants:

	Number of Warrants-2010	Number of Warrants-2009	Weighted Average Exercise Price-2010	Weighted Average Exercise Price-2009
Balance, at beginning of year	3,215,910	1,073,827	\$ 0.48	\$ 0.81
Issued, on flow-through units	580,965	-	\$ 1.00	\$ -
Issued	2,422,768	2,267,083	\$ 0.70	\$ 0.31
Exercised	(30,000)	-	\$ 0.60	\$ -
Exercised	(2,008,750)	(125,000)	\$ 0.30	\$ 0.30
Exercised	(133,333)	-	\$ 0.45	\$ -
Expired	(1,043,827)	-	\$ 0.82	\$ -
Balance, at end of year	3,003,733	3,215,910	\$ 0.76	\$ 0.48

The outstanding issued warrants at December 31, 2010 and 2009, is comprised as follows:

Expiry Date	Type	Number of Warrants-2010	Number of Warrants-2009	Weighted Average Exercise Price-2010	Weighted Average Exercise Price-2009
July 2, 2010	Finders Warrants	-	161,077	\$ -	\$ 2.00
July 2, 2010	Warrants	-	912,750	\$ -	\$ 0.60
November 22, 2010	Warrants	-	2,008,750	\$ -	\$ 0.30
December 21, 2011	Finders Warrants	-	133,333	\$ -	\$ 0.45
June 2, 2012	Warrants	580,965	-	\$ 1.00	\$ -
June 2, 2012	Warrants	2,422,768	-	\$ 0.70	\$ -
		3,003,733	3,215,910	\$ 0.76	\$ 0.48

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12. STOCK-BASED COMPENSATION

On August 12, 2010 the Company granted a total of 210,000 options to an officer and a consultant. The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, expected volatility 196.30%, a risk free interest rate of 2.60%, and an expected life of 2 years. These options vest at a rate of 50% every six months after the date of grant. As a result, the fair value of the options was estimated at \$58,228 and will be recorded in the statement of operations over the periods the underlying options vest.

On December 13, 2010 the Company granted a total of 1,180,000 options to officers, directors and consultants. The fair value assigned was estimated using the Black Scholes option pricing model with the following assumptions: dividend yield 0%, expected volatility 191%, a risk free interest rate of 2.60%, and an expected life of 2.25 years. These options vest immediately at the date of issue. As a result, the fair value of the options was estimated at \$744,727 and was recorded in the statement of operations for the year ended December 31, 2010.

Treasury Metals has a 10% rolling stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. As at December 31, 2010, the Company has 841,491 (December 31, 2009 – 395,484) options available for issuance under the plan.

Continuity of the unexercised options to purchase common shares at December 31, 2010 and December 31, 2009 is as follows:

	Number of Stock Options 2010	Weighted Average Exercise Price	Number of Stock Option 2009	Weighted Average Exercise Price
Balance, at beginning of year	3,157,000	\$ 0.30	-	\$ -
Granted	210,000	\$ 0.30	3,157,000	\$ 0.30
Granted	1,180,000	\$ 0.70	-	\$ -
Exercised	(524,500)	\$ 0.30	-	\$ -
Expired	(393,000)	\$ 0.30	-	\$ -
Balance, at end of year	3,629,500	\$ 0.43	3,157,000	\$ 0.30

The outstanding options at December 31, 2010, is comprised as follows:

Grant Date	Expiry Date	Number of Stock Options	Exercise Price
June 23, 2009	June 23, 2014	2,089,500	\$0.30
August 10, 2009	August 10, 2014	150,000	\$0.30
August 12, 2010	August 12, 2015	210,000	\$0.30
December 13, 2010	December 13, 2013	1,180,000	\$0.70
		3,629,500	\$0.43

Of the total of 3,629,500 options 3,419,500 are fully vested and exercisable at December 31, 2010.

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13. RELATED PARTY TRANSACTIONS

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

i) Treasury Metals was charged \$402,173 during the year ended December 31, 2010 (2009 - \$245,337) by a company in which an officer and director has an interest. This company provides technical and professional services. These charges are all included in mineral properties and related deferred costs. Included in accounts payable at December 31, 2010 is an amount of \$3,725 (2009 - \$40,599) with respect to these services.

ii) At December 31, 2010, \$2,933 was due to Laramide Resources Ltd., a company having a director in common with Treasury Metals, (December 31, 2009 – \$3,958). The amounts due to Laramide are the result of expenses paid by Laramide on behalf of Treasury Metals. Laramide charged \$85,815 for the year ended December 31, 2010 (2009 - \$Nil) for offices space and services. Treasury Metals was charged \$72,044 by the previous land lord for office space and services for the comparative period in 2009.

iii) During the year ended December 31, 2010, \$68,586 (2009 - \$80,124) was charged by a law firm where an officer of Treasury Metals is an employee and other officers charged \$30,000 (2009 - \$62,000) in professional fees. Of these amounts \$39,403 (2009 – \$76,585) is in accounts payable at the end of the year.

Transactions in (i), (ii), and (iii) were conducted in the normal course of operations and are measured at the exchange amounts.

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14. INCOME TAX

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate of 31% (2009-33%). A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2010	2009
Loss before income taxes	\$ (5,838,474)	\$ (1,335,483)
Expected income tax recovery	(1,810,000)	(441,000)
Non-taxable portion of capital loss	48,000	40,000
Difference between current and future tax rates	270,000	52,000
Stock-based compensation	248,000	180,000
Other	304,000	192,000
Change in valuation allowance	(146,000)	(652,000)
Income tax recovery reflected in the statement of operations	\$ (1,086,000)	\$ (629,000)

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

Future tax recovery	\$ (1,086,000)	\$ (629,000)
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The Company's future tax assets and liabilities as at December 31, 2010 and 2009:

Future income tax assets	2010	2009
Share issue costs	\$ 119,000	\$ 132,000
Excess book value of investments	9,500	195,000
Capital losses carried forward	388,500	350,000
Non-capital losses carried forward	307,000	207,000
Other	1,000	1,000
Income tax recovery reflected in the statement of operations	\$ 825,000	\$ 885,000
Less: valuation allowance	\$ (399,000)	\$ (545,000)
Net future income tax assets	\$ 426,000	\$ 340,000
Future income tax liability		
Deferred exploration expenses	\$ (540,000)	\$ (1,290,000)
Net future taxes	\$ (114,000)	\$ (950,000)

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14. INCOME TAX (Continued)

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

2027	\$ 65,000
2028	592,000
2029	173,000
2030	396,000
	<hr/>
	\$ 1,226,000

15. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of December 31, 2010 the Company is committed to spend \$802,000 on Canadian exploration costs by December 31, 2011 as part of its 2010 flow-through funding agreements. The \$915,000 commitment regarding the 2009 flow-through funding has been fully spent.

16. SUBSEQUENT EVENTS

On March 22, 2011, the Company announced that it has closed a brokered private placement (the "Offering"), led by Cormark Securities Inc. ("Cormark") as agent. The Offering consisted of 3,125,000 flow-through common shares (the "Flow-Through Shares") of the Company at a price of \$1.60 per Flow-Through Share, for aggregate gross proceeds of \$5,000,000. The net proceeds of the financing will be used to incur eligible Canadian Exploration Expenses and flow-through mining expenditures, as defined under the Income Tax Act (Canada), that will be renounced in favour of the purchasers with an effective date of no later than December 31, 2011. The funds are intended to be used to explore and advance Treasury Metals' gold projects located in the Kenora Mining District of Northwestern Ontario.

The Company paid Cormark a cash commission equal to 6% of the gross proceeds of the Offering and issued Cormark compensation options ("Compensation Options") equal to 6% of the aggregate number of Flow-Through Shares subscribed for. Each Compensation Option entitles the holder thereof to purchase 1 common share of the Company at a price of \$1.60 (subject to adjustment) until March 22, 2013.