



TRELAWNEY

Mining and Exploration Inc.

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)

**Audited Consolidated
Financial Statements
For the year ended
December 31, 2009 and 2008**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Trelawney Mining and Exploration Inc. (formerly Trelawney Resources Inc.) the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal controls that are designed by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The Board of Directors is responsible for reviewing and approving the financial statements and ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval. The Audit Committee is responsible for engaging and reappointing the external auditors.

The external auditors conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on these financial statements. Those standards require that the external auditors plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

("Signed") Greg Gibson
_____, President and CEO
Greg Gibson

("Signed") Andres Tinajero
_____, CFO
Andres Tinajero

parker simone LLP

Chartered Accountants
129 Lakeshore Road East
Suite 201 Mississauga Ontario
L5G 1E5
T 905 271.7977
F 905 271.7677

Auditors' Report

To the Shareholders of
Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)

We have audited the consolidated balance sheets of Trelawney Mining and Exploration Inc. *(formerly Trelawney Resources Inc.)* as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



February 12, 2010

Licensed Public Accountants

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)
Audited Consolidated Balance Sheets
(Expressed in Canadian Dollars)

<i>As at December 31,</i>	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,640,697	\$ 372,144
Marketable securities (Note 5)	32,500	9,750
GST recoverable	76,854	19,751
Prepaid expenses	8,937	8,532
	10,758,988	410,177
Mineral properties and deferred costs (Note 4)	10,821,403	4,759,042
	\$ 21,580,391	\$ 5,169,219
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 794,941	\$ 135,190
	794,941	135,190
Future Income Tax Liability (Note 10)	-	135,000
Property Option Payable (Note 4.d)	1,000,000	-
	1,794,941	270,190
Shareholders' equity		
Capital stock (Note 8)	19,222,646	6,212,174
Contributed surplus (Note 9)	5,983,119	1,465,819
Deficit	(5,420,315)	(2,778,964)
	19,785,450	4,899,029
	\$ 21,580,391	\$ 5,169,219

Nature of Operations/Going Concern (Note 1)
Commitments and Contractual Obligations (Note 12)
Subsequent Events (Note 13)

Approved by the Board:

("Signed") James Fairbairn
_____, Director
James Fairbairn

("Signed" Patrick Mohan
_____, Director
Patrick Mohan

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)
Audited Consolidated Statements of Operations and Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)

<i>Years Ended December 31,</i>	2009	2008
Revenue		
Interest	\$ -	\$ 23,027
	-	23,027
Administrative Expenses		
Management and consulting fees	515,113	225,200
Promotion and travel	117,593	16,977
Office and general	220,276	89,892
Professional fees	114,537	42,981
Stock-based compensation <i>(Note 8)</i>	686,300	6,000
Shareholders' information	94,260	32,073
	1,748,079	413,123
Write-down of mineral properties and deferred costs <i>(Note 4)</i>	798,022	426,451
Loss (gain) of marketable securities <i>(Note 5)</i>	(22,750)	33,000
Net Loss and comprehensive loss before income taxes	2,523,351	849,547
Future income tax expense (recovery)	118,000	(263,000)
Net loss and Comprehensive loss	2,641,351	586,547
Deficit at beginning of year	2,778,964	2,192,417
Deficit, end of year	\$ 5,420,315	\$ 2,778,964
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Net loss per share – basic and fully diluted	9.7¢	1.0¢
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Weighted average # of shares outstanding - basic	27,170,287	88,770,085
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Weighted average # of shares outstanding – fully diluted	27,170,287	88,770,085
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See notes to the audited consolidated financial statements

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)
Audited Consolidated Statements of Cash Flow
(Expressed in Canadian Dollars)

<i>Years Ended December 31,</i>	2009	2008
Operations		
Net loss	\$ (2,641,351)	\$ (586,547)
Adjustments to reconcile net loss to cash flow from operating activities:		
Stock-based compensation	686,300	6,000
Write-down of mineral properties	798,022	426,451
Loss (gain) on marketable securities	(22,750)	33,000
Future income tax expense (recovery)	118,000	(263,000)
Net change in non-cash operating working capital items:		
Prepaid expenses	(405)	2,457
GST recoverable	(57,103)	(3,705)
Accounts payable and accruals	681,563	19,582
	(437,725)	(365,762)
Financing		
Issuance of common shares	12,557,660	-
	12,557,660	-
Investing		
Mineral property option payments received	-	35,000
Additions to mineral properties and deferred costs	(1,851,383)	(1,554,497)
	(1,851,383)	(1,519,497)
Net increase (decrease) in cash and cash equivalents	10,268,553	(1,885,259)
Cash and cash equivalents, beginning of year	372,144	2,257,403
Cash and cash equivalents, end of year	\$ 10,640,697	\$ 372,144
Cash and cash equivalents are comprised of:		
Cash	1,593,347	372,144
Short-term deposits	9,047,350	-
	\$ 10,640,697	\$ 372,144

See notes to the audited consolidated financial statements

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)

Notes to Audited Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008

General

Trelawney Mining and Exploration Inc. (Trelawney or the Company) was incorporated under the laws of the Province of Ontario, Canada. Its principal business activities are that of mineral exploration Company in Ontario. On April 16, 2009 the Company filed Articles of Amendment to change its name from Trelawney Resources Inc. to Trelawney Mining and Exploration Inc. These articles also authorized a five for one share consolidation of the Company's issued and outstanding shares.

1. Nature of Operations

Trelawney is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of expenditures on mineral properties and the related deferred exploration costs is dependent upon the existence of economically recoverable mineralization, the ability of Trelawney to obtain financing necessary to complete the exploration and the development of the mineral properties, and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition.

Going concern

On the basis of information to date, it has not yet determined whether these unproven mineral properties contain economically recoverable reserves. The amounts shown as mineral properties and deferred costs represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the unproven mineral properties is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

At December 31, 2009, the Company had working capital of \$9,964,047 (2008 - \$274,987), had not yet achieved profitable operations, has accumulated losses of \$5,420,315 (2008 - \$2,778,964) and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

Management plans to secure the necessary financing through a combination of the exercise of existing options and warrants for the purchase of common shares, the issue of new equity and the entering into joint venture arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

The company will require substantial additional funds to further explore and, if warranted, develop one or more of its exploration properties. The Company has limited financial resources and no current source of recurring revenue, and there is no assurance that additional funding will be available to the Company to carry out the completion of its planned exploration activities, for property into commercial production. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and property development. The terms of any additional financing obtained by the Company could result in substantial dilution to the shareholders of the Company.

Trelawney Mining and Exploration Inc.
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Notes to Audited Consolidated Financial Statements
For the Year Ended December 31, 2009 and 2008

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Canadian wholly-owned subsidiary Terex Resources Limited ("TRL").

Mineral Properties and Deferred Costs

Trelawney defers the costs of exploration on existing projects and carries them as assets until production commences. The amounts at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral properties and deferred exploration costs are amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because of continuation is not economically feasible, the mineral properties and the related deferred exploration costs are written off. Option payments received are applied against the mineral property or deferred exploration costs.

Revenue Recognition

Trelawney recognizes interest revenue as earned over the passage of time on a monthly basis.

Impairment of Long-lived Assets

Trelawney reviews mineral properties and deferred costs for impairment on a periodic basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts.

Asset Retirement Obligations

At December 31, 2009, the Company has made no provision for site restoration costs or potential environmental liabilities as all properties are still in the exploration stages. Factors such as further exploration, inflation and changes in technology may materially change the cost estimate.

Income Taxes

Trelawney follows the asset and liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on the future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs.

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 and the valuation of warrants and options. Management believes that these estimates are reasonable.

Stock-based compensation

Trelawney uses the fair value method in accounting for stock-based compensation. Under this method, stock-based payments are measured at the fair value of the equity instruments issued, and are amortized over the vesting period. The offset to the recorded cost is to contributed surplus.

Trelawney Mining and Exploration Inc.
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Notes to Audited Consolidated Financial Statements
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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.

Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes relating to the temporary difference that will arise when the qualifying expenditures are incurred are recorded at the time of filing the renunciation with the tax authorities. The recognition of the future income tax liability will result in a corresponding reduction to the carrying value of the shares issued.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments having an original maturity of less than or equal to 90 days.

Loss per Share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the quarter or year, as appropriate. 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 losses per share are the same. When fully-diluted loss per share is calculated, only those options and warrants with average exercise prices "in-the-money" are included.

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.

Transaction Costs

The Company expenses transaction costs relating to its financial instruments.

Comprehensive Income (Loss)

The Company records unrealized gains and losses from temporary changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Hedging

Section 3865 of the CICA Handbook specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and for the year ended December 31, 2009, the Company had no hedges in place.

Trelawney Mining and Exploration Inc.
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Notes to Audited Consolidated Financial Statements
For the Year Ended December 31, 2009 and 2008

3. Current and Future Changes in Accounting Policies

Mining Exploration Costs

On March 27, 2009, the CICA approved EIC 174, "Mining Exploration Costs". This provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company has applied this new abstract for the year ended December 31, 2009 resulting in no significant impact on its consolidated financial statements.

Going Concern

On January 1, 2009 the Company adopted *Section 1400 - General standards of financial statement presentation*, and it has since been amended to include going concern requirements. The amendments require management to make an assessment of the Company's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. The Company's disclosures in the going concern note reflect such assessments.

Future Accounting Pronouncements

Convergence with International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a 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 transition 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 cannot be reasonably estimated at this time.

Business combinations, financial statements & 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 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.

Trelawney Mining and Exploration Inc.
(formerly Trelawney Resources Inc.)

Notes to Audited Consolidated Financial Statements
For the Year Ended December 31, 2009 and 2008

4. Mineral Properties and Deferred Costs

The following table summarizes the Company's mineral properties and deferred expenditures:

	31-Dec-09				
	Opening Balance	Additions	Disposals	Option Payments	Net
	(\$)	(\$)	(\$)	(\$)	(\$)
Chester 1	-	2,864,020	-	-	2,864,020
Dorset Au	2,903,724	18,627	-	-	2,922,351
Chester 2 - Young Shannon	-	2,694,744	-	-	2,694,744
Chester 3 - Jack Rabbit	-	1,132,931	-	-	1,132,931
Mishi	468,211	18,258	-	-	486,469
Massey	589,085	98,803	-	-	687,888
Hiawatha	-	18,000	-	-	18,000
Chesbar	-	15,000	-	-	15,000
Martin - Murgor	798,022	-	(798,022)	-	-
	4,759,042	6,860,383	(798,022)	0	\$ 10,821,403

	31-Dec-08				
	Opening Balance	Additions	Disposals	Option Payments	Net
	(\$)	(\$)	(\$)	(\$)	(\$)
Dorset Au	2,325,285	578,439	-	-	2,903,724
Martin - Murgor	162,344	635,678	-	-	798,022
Other	125,450	235,946	(335,946)	-	25,450
Mishi	385,532	173,184	(90,505)	-	468,211
Massey	622,635	2,250	-	(61,250)	563,635
	3,621,246	1,625,497	(426,451)	(61,250)	4,759,042

4.a - Chester 1 Property

On June 26, 2009, Trelawney signed a letter of agreement with Treelawn Investment Corp. ("Treelawn") to acquire up to a 70% interest in two leased mining claims (151 hectares), which hosts the Chester Gold Mine in Chester Township, northern Ontario.

4.b - Dorset Au Property

The Company earned a 50% interest in the Dorset property (5 claims totaling 18 units) located about 60 km west of Wawa, Ontario. Trelawney can earn an additional 20% by completing a feasibility study, making cash payment of \$100,000, and issuing 500,000 common shares.

4.c - Chester 2 Property - Young Shannon Property

On August 20, 2009, the Company signed an acquisition agreement with Metallum Resources Inc. ("Metallum") to acquire 100% of Metallum's 92.5% interest in the Young-Shannon Property adjacent to the Chester Property in exchange for 5,000,000 common shares of Trelawney and a 1% net smelter return royalty payable when the monthly average gold price exceeds US\$1,000 per ounce. An additional 3%, for a total of 4%, is payable to the proprietary owners on the 11 patented and 2 unpatented mining claims. The Young-Shannon Property consists of 11 patented and 18 unpatented mining claims.

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Notes to Audited Consolidated Financial Statements
For the Year Ended December 31, 2009 and 2008

4.d - Chester 3 Property - Jack Rabbit Property

Trelawney and Treelawn entered into a term sheet (the "Letter Agreement"), pursuant to which Treelawn has granted the Company the right to acquire up to a 92.5% interest in certain mining claims located in Chester Township, Ontario.

Pursuant to the terms of the Letter Agreement the Company can acquire an initial 50% interest in the Property (the "First Option"), in exchange for:

- 3,000,000 common shares ("Common Shares") of the Company;
- on or before the end of every three month period following the signing of a definitive option agreement (the "Effective Date"), the Company shall pay Treelawn the amount of \$18,000 for a period of three years, for a total consideration of \$216,000;
- on or before the Effective Date the Company shall pay Treelawn the amount of \$1,000,000;
- on or before the first anniversary of the Effective Date the Company shall pay Treelawn the amount of \$1,000,000; and
- on or before the end of the 18th month anniversary following the Effective Date, the Company shall have made \$500,000 in expenditures on the Property;
- on or before the end of the 18th month anniversary following the Effective Date, the Company shall issue an additional 4,000,000 Common Shares to Treelawn; and
- in the event the Company fails to exercise the First Option, the Company shall pay Treelawn the amount of \$1,000,000. The Company has accrued the \$1,000,000 and classified it as a long term payable as the payment is not required until 30 days after the first anniversary of the effective date, which would be due fiscal 2011, in the event that the Company does not exercise it's First Option.

After exercising the First Option the Company shall grant to Treelawn a 1.5% net smelter return royalty (the "Royalty") on the Property. During the 48 months following the grant of the Royalty the Company shall have the right to purchase 0.5% of the Royalty from Treelawn for sum of \$1,000,000.

Twelve months following the exercise of the First Option and provided the Company has expended \$500,000 on the Property, the Company can earn an additional 25% interest in the Property (the "Second Option") by issuing an additional 4,000,000 Common Shares to Treelawn.

The Company can acquire a final 17.5% interest in the Property on the date that is 12 months from the exercise of the Second Option and provided the Company has expended an additional \$500,000 on the Property by issuing an additional 4,000,000 Common Shares to Treelawn.

4. e - Hiawatha Property

The Company acquired 70% right in the Hiawatha Property on December 30, 2009. The property is located in Lizar Township, Ontario. The Company must pay \$40,000 and issue 400,000 common shares.

4. f - Mishi Property

Trelawney has 100% interest in 4 claim blocks totaling 328 claim units in the Mishibishu Lake area, 65 kilometers northeast of Wawa, Ontario.

4. g - Massey Property

Trelawney has 100% interest in 37 claim units located in the Salter Township, 80 kilometers west of Sudbury, Ontario.

In January 2007, Trelawney signed an option agreement whereby a company can earn up to 75% interest in the Massey property by spending \$1.2 million on exploration, making cash payments totaling \$260,000 over five years, issuing 1,150,000 common shares of the company over five years, and obtaining a feasibility study on the property.

Trelawney Mining and Exploration Inc.
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Notes to Audited Consolidated Financial Statements
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4. h -Murgor Option – Mishibishu Lake Property

On May 31, 2006, Trelawney entered into an option agreement to acquire up to 75% interest in the Murgor's Mishibishu Lake Property. In order to acquire a 50% interest in the property, Trelawney must satisfy the following obligations:

	Cash	Common Shares	Exploration Expenditures
2006 (paid)	\$ 10,000	150,000	\$ -
2007 (paid)	20,000	100,000	100,000
2008 (paid)	25,000	100,000	200,000
2009	35,000	100,000	300,000
2010	50,000	150,000	400,000
2011	60,000	150,000	500,000
	<u>\$ 200,000</u>	<u>750,000</u>	<u>\$ 1,500,000</u>

In order to acquire an additional 25% interest, Trelawney must exercise the 50% option above, issue 400,000 common shares and obtain a feasibility study. The property, which is comprised of 14 claims totaling 114 units, is subject to a 1% net smelter return on 1 claim totaling 1 unit.

The property was returned to the vendor and written-off in the fourth quarter of 2009.

5. Marketable Securities

Marketable securities are comprised of 325,000 (2008 – 325,000) shares of Citadel Gold Mines Inc., a publicly-traded Canadian company traded on the NEX stock exchange. As at December 31, 2009, these held-for-trading investments have been measured at their fair value of \$32,500 (2008 – \$9,750), as determined by the closing price of the securities on the NEX on December 31, 2009. The impact to the consolidated financial statements of this revaluation to market value had a \$22,750 gain effect (2008 – (\$33,000)) as market value was more than the carrying value as at December 31, 2009.

6. Financial Risk Factors

Fair Value of Financial Instruments

The Company has, designated its cash and cash equivalents and marketable securities as held for trading, which are measured at fair value. GST recoverable is classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Accounts payable and accrued liabilities and property option payable are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair value. As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject in and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

A) Credit Risk

The Company is not exposed to major credit risk attributable to customers. Additionally, the majority of the Company's cash and cash equivalents are held with a high rated Canadian financial institution in Canada.

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B) Market Risk

i.) Interest Rate Risk

The Company does not have any interest bearing debt. The Company invest cash surplus to its operational needs in investment-grade short term deposits certificates issued by the bank where it keeps its Canadian Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposits certificates.

ii.) Foreign Currency Risk

The Company's exploration and evaluation activities are substantially denominated in Canadian dollars. The Company's funds are predominantly kept in Canadian dollars, with a major Canadian financial Institution.

iii.) 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.

iv.) Commodity Price Risk

The price of the common shares in the capital the Company ("Common Shares"), its financial results, exploration and development activities have been, or may in the future be, adversely affected by declines in the price of gold and/or other metals. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from mining and sale of precious and base metals or interests related thereto. The effect of these factors on the price of precious and base metals, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

v.) 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, 2009, the Company had current assets of \$10,758,988 (2008 - \$410,177) and current liabilities of \$794,941 (2008 - \$135,190). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. Current working capital of the Company is \$9,964,047 (2008 - \$274,987).

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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 over a one year period:

- (i) Cash and cash equivalents include short-term money market mutual fund units that are subject to floating interest rates. As at December 31, 2009, if interest rates had fluctuate by 1% with all other variables held constant, the loss for the year ended December 31, 2009 would be changed by \$13,000, as a result of a change in interest income from cash and cash equivalents.
- (ii) The Company's investments are subject to fair value fluctuations. As at December 31, 2009, if the fair value of investments had fluctuated by 10% with all other variables held constant, net loss for the year ended December 31, 2009 would have changed by \$3,000.

7. Related Party Transactions

Certain corporate entities that are related to the Company's officers and directors provide consulting services to Trelawney. Transactions were conducted in the normal course of operations and are measured at the exchange amounts.

These expenditures are summarized as follows:

For the years ended December 31,	2009	2008
Management and consulting fees	\$ 349,834	\$ 183,700
Directors Fees	110,000	-
Legal fees	120,311	16,700
Deferred exploration expenditures	54,193	150,000

Included in accounts payable and accrued liabilities is \$80,587 (2008 - \$59,077) in amounts due to related parties.

During the year, the Company entered into agreements with two officers of the Company that contain change of control and termination clauses pursuant to which the officers would be entitled to termination payments up to an aggregate of \$320,000 under certain circumstances.

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8. Capital Stock

Share Capital

The Company is authorized to issue an unlimited number of common shares without par value. The issued and outstanding common shares consist of the following:

	No. of Shares	
Balance at December 31, 2007	88,202,688	\$ 6,539,174
Issuance of common shares for property	1,550,000	71,000
Future tax liability pursuant to flow through shares	-	(398,000)
Balance at December 31, 2008	89,752,688	\$ 6,212,174
Issuance of common shares for cash:		
Private placement FT units - \$0.20	11,115,000	2,223,000
Private placement Hard units - \$0.17	4,173,234	709,450
Private placement Hard units - \$0.11	2,000,000	220,000
Private placement FT units - \$0.60	4,605,000	2,763,000
Private placement Hard units - \$0.50	15,296,600	7,648,300
Issuance of shares for property	9,100,000	3,848,000
Issuance of shares for debt*:	268,828	21,812
Consolidation 5:1	(71,822,159)	-
Finder's fee	60,000	6,600
Fair market value assigned to warrants	-	(3,208,000)
Costs of issuances		
Cash commissions paid	-	(1,006,090)
Finder's fee	-	(6,600)
Fair market value assigned to broker warrants	-	(462,000)
Future tax benefit on cost of issuance	-	253,000
Balance at December 31, 2009	64,549,191	\$ 19,222,646

*On April 15, 2009, Trelawney settled trade debts owing by the company through the issuance of shares for debt.

Private Placements

Details of private placements completed during the year ended December 31, 2009, is as follows:

Date of issuance	May 27, 2009	August 21, 2009	August 27, 2009	December 22, 2009	December 22, 2009	Total
Number of units issued	2,000,000	11,115,000	4,173,234	15,296,600	4,605,000	37,189,834
Price of issue	\$0.11	\$0.20	\$0.17	\$0.50	\$0.60	
Gross proceeds	\$ 220,000	\$2,223,000	\$ 709,450	\$ 7,648,300	\$2,763,000	\$13,563,750
Number of common shares issued	2,000,000	11,115,000	4,173,234	15,296,600	4,605,000	17,288,234
Number of common share purchase warrants	-	5,557,500	2,086,617	7,648,300	-	15,292,417
Number of common share broker warrants	-	-	-	1,393,112	-	1,393,112
Exercise price per purchase warrant and broker warrant	-	\$0.30	\$0.30	\$0.70 and \$0.50	-	-
Expiry date of warrants	-	August 27, 2010	August 27, 2010	December 22, 2011	-	-

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Stock Options

Trelawney established a stock option to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. The stock option plan provides that the total number of shares which may be issued thereunder is limited to 9% of the aggregate number of shares outstanding. Under the terms of the plan, options vest immediately and expire on the fifth anniversary from the date of issue unless otherwise specified. As at December 31, 2009 the Company had 2,509,427 (2008 – 4,827,742) options available for issuance.

A summary of stock options issued and outstanding is as follows:

	December 31, 2009		December 31, 2008	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at beginning of year	\$ 0.75	650,000	\$ 0.15	3,350,000
Transaction during the period:				
Granted	0.33	2,810,000	0.11	100,000
Forfeited	(0.94)	(160,000)	0.10	(200,000)
Outstanding at end of year	0.39	3,300,000	0.15	3,250,000
Exercisable at end of year	\$ 0.39	3,229,333	\$ 0.15	3,210,000

The following table provides additional information about outstanding stock options at December 31, 2009:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Options Currently Exercisable	Weighted Average Exercise Price – Exercisable Options
\$ 0.26 - \$0.37	2,810,000	4.71	\$ 0.33	2,743,333	\$ 0.33
\$ 0.525 - \$0.55	320,000	0.55	\$ 0.53	316,000	\$ 0.53
\$ 1.00	170,000	1.86	\$ 1.00	170,000	\$ 1.00
0.26 - \$1.00	3,300,000	4.16	\$ 0.39	3,229,333	\$ 0.39

On April 15, 2009, the Company had a 5:1 Reverse stock split and all options held are effected as of that date.

Stock-based Compensation

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options issued during the year ended December 31, 2009:

Grant date	August 27, 2009	September 22, 2009	Totals
No. of options	910,000	1,900,000	2,810,000
Exercise price	\$ 0.26	\$ 0.37	
Expected life in years	5	5	
Volatility	105.32%	105.41%	
Risk-free interest rate	2.65%	2.57%	
Dividend yield	-	-	
Fair value of options granted	\$ 184,000	\$ 502,300	\$ 686,300
Stock-based compensation expense	\$ 184,000	\$ 502,300	\$ 686,300

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The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options issued during the year ended December 31, 2008:

Grant date	February 6, 2008
No. of options	100,000
Exercise price	\$ 0.11
Expected life in years	5
Volatility	99.06%
Risk-free interest rate	3.34%
Dividend yield	-
Fair value of options granted	\$ 6,000
Stock-based compensation expense	\$ 6,000

Warrants

Month of Expiry	No. of Warrants	Exercise Price
August 2010	1,000,000	\$ 0.17
August 2010	7,644,117	\$ 0.30
December 2011	7,648,300	\$ 0.70
December 2011	1,393,112	\$ 0.50
	17,685,529	

The following table summarizes the assumptions used with the Black-Scholes valuation model during the period ended December 31, 2009:

Grant date	August 21, 2009	August 26, 2009	August 27, 2009	August 27, 2009	December 22, 2009	December 22, 2009	Totals
No. of warrants	1,625,000	3,592,500	2,426,617	1,000,000	7,648,300	1,393,112	17,685,529
Exercise price	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.17	\$ 0.70	\$ 0.50	
Expected life in years	1	1	1	1	2	2	
Volatility	138.98%	139.79%	139.79%	139.79%	117.28%	117.28%	
Risk-free interest rate	1.25%	1.20%	1.19%	1.19%	1.36%	1.36%	
Dividend yield	-	-	-	-	-	-	
Fair value of warrants	\$ 174,000	\$ 478,000	\$ 305,000	\$ 161,000	\$ 2,251,000	\$ 462,000	\$ 3,831,000

9. Contributed Surplus

As at December 31,	2009	2008
Balance at beginning of year	\$ 1,465,819	\$ 1,459,819
Stock-based compensation expense	686,300	6,000
Fair market value to warrants issued	3,831,000	-
Balance at end of year	\$ 5,983,119	\$ 1,465,819

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10. Future Income Taxes

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

	2009	2008
	\$	\$
Loss before income taxes	(2,523,351)	(849,547)
Combined Statutory rate	33.00%	33.50%
Estimated recovery of income taxes	(833,000)	(285,000)
Permanent differences	311,000	8,000
Change in valuation allowance	512,000	(58,000)
Difference between current and future tax rates	128,000	72,000
Future income tax expense (recovery)	118,000	(263,000)

The Canadian statutory income tax rate of 33.0% (2008 - 33.5%) is comprised of the federal income tax rate at approximately 19% (2008 - 19.5%) and the provincial income tax rate of approximately 14.00% (2008 - 14.00%). The primary differences which give rise to the future income tax recoveries at December 31, 2009 and 2008 are as follows:

	2009	2008
	\$	\$
Future income tax assets		
Share issuance costs	219,000	34,000
Other	2,000	7,000
Operating losses carried forward	654,000	697,000
	875,000	738,000
Less : valuation allowance	(512,000)	-
Net future tax assets	363,000	738,000
Future tax liabilities		
Deferred exploration expenses	(363,000)	(873,000)
Net future tax liabilities	(363,000)	(873,000)
Net future tax liability	-	(135,000)

As at December 31, 2009, the unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately \$876,400 (2008 - \$118,000) and will be deductible over the next four years.

As at December 31, 2009, the Company has \$9,361,900 (2008 - \$1,619,500) of unused CEE, CDE and FED expenses available to offset future taxable income. The tax benefits pertaining to these expenses are available to carry forward indefinitely.

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The Company also has \$2,615,700 (2008 - \$2,404,600) in non-capital losses carry-forward for which no benefit has been recognized in the accounts. These losses expire as follows:

	<u>\$</u>
2010	317,800
2014	319,500
2015	918,700
2026	585,000
2027	159,400
2028	60,800
2029	254,500
	<u><u>2,615,700</u></u>

11. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. 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, 2009. 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, and deficit, which as at December 31, 2009 totaled \$19,785,450 (2008 - \$4,899,029).

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits.

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.

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

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

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12. Commitments and Contractual Obligations

As part of its 2009 flow-through funding agreements, the Company is committed to spending approximately \$3,257,000 on Canadian exploration costs by December 31, 2010.

13. Subsequent Events

1. On March 18, 2010, the Company reported that its previously announced "bought deal" private placement was over-subscribed. The Underwriters have agreed to purchase up to an additional 4,761,905 common shares ("Common Shares") of Trelawney, at a price of \$1.05 per Common Share, resulting in the issuance of an aggregate of 12,380,952 Common Shares for gross proceeds of \$13,000,000 (the "Offering"). In addition, the Underwriters shall also have the option, exercisable prior to the closing of the Offering, to purchase up to an additional 1,857,143 Common Shares at the issue price under the Offering for additional gross proceeds of up to \$1,950,000. The Company expects to close the proposed transaction no later than March 30, 2010.
2. On February 10, 2010, the Company purchased equipment for a cost of \$718,000 to be paid over a period of 18 months.
3. The Company entered into an agreement to purchase a property for an amount of \$995,000, which is scheduled to close in May 2010. The property will be used as a logistics facility.