



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

**Unaudited Consolidated  
Financial Statements  
For the nine month period ended  
September 30, 2009 and 2008**

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**Notice to Reader**

Management has compiled the unaudited interim financial information of Trelawney Mining and Exploration Inc. consisting of the interim Consolidated Balance Sheet as at September 30, 2009 and the interim Consolidated Statements of Operations and Deficit and Cash Flows for the nine months ended September 30, 2009. All amounts are stated in Canadian Dollars. An accounting firm has not reviewed or audited this interim financial information.

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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited consolidated financial statements of Trelawney Mining and Exploration Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2008 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the period end unaudited interim consolidated financial statements, including responsibility for significant accounting judgements and estimates and the choice of accounting principles and methods that are appropriate to the Corporation's circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

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

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

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

<i>As at</i>	(Unaudited) September 30, 2009	(Audited) December 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,195,785	\$ 372,144
Marketable securities (Note 5)	9,750	9,750
GST recoverable	27,015	19,751
Subscription receivable	45,900	-
Prepaid expenses	19,406	8,532
	<b>2,297,856</b>	410,177
<b>Mineral properties and deferred costs (Note 4)</b>	<b>6,115,914</b>	4,759,042
	<b>\$ 8,413,770</b>	\$ 5,169,219
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 125,362	\$ 135,190
<b>Future Income Tax Liability (Note 10)</b>	<b>135,000</b>	135,000
	<b>260,362</b>	270,190
<b>Shareholders' equity</b>		
<b>Capital stock (Note 8)</b>	<b>8,518,438</b>	6,212,174
<b>Contributed surplus (Note 9)</b>	<b>3,924,819</b>	1,465,819
<b>Deficit</b>	<b>(4,289,849)</b>	(2,778,964)
	<b>8,153,408</b>	4,899,029
	<b>\$ 8,413,770</b>	\$ 5,169,219

Nature of Operations/Going Concern (Note 1)  
Commitments (Note 11)

**Trelawney Mining and Exploration Inc.**

(formerly Trelawney Resources Inc.)

**Interim Consolidated Statement of Operations and Comprehensive Income (loss) and Deficit**

(Expressed in Canadian Dollars)

	<b>Three months ended September 30, 2009</b>	Three months ended September 30, 2008	<b>Nine months ended September 30, 2009</b>	Nine months ended September 30, 2008
<b>Revenue</b>				
Interest Income	\$ -	\$ 4,374	\$ -	\$ 21,792
Other Income	-	-	-	6,033
	-	4,374	-	27,825
<b>Administrative Expenses</b>				
Management and consulting fees	<b>209,729</b>	49,750	<b>294,729</b>	175,950
Promotion and travel	<b>52,576</b>	2,418	<b>82,416</b>	6,660
Office and general	<b>55,116</b>	19,483	<b>131,363</b>	72,235
Professional fees	<b>35,872</b>	6,070	<b>66,551</b>	30,964
Stock-based compensation <i>(Note 8)</i>	<b>819,000</b>	-	<b>819,000</b>	6,000
Shareholders' information	<b>44,359</b>	2,432	<b>76,605</b>	43,296
Salaries	<b>40,221</b>	-	<b>40,221</b>	-
	<b>1,256,873</b>	79,653	<b>1,510,885</b>	335,105
Write-down of mineral properties	-	90,505	-	90,505
<b>Net loss and Comprehensive loss</b>	<b>1,256,873</b>	165,784	<b>1,510,885</b>	397,785
Deficit at beginning of year	<b>3,032,976</b>	2,424,418	<b>2,778,964</b>	2,192,417
<b>Deficit, end of year</b>	<b>\$ 4,289,849</b>	\$ 2,590,202	<b>\$ 4,289,849</b>	\$ 2,590,202
Net loss per share – basic and fully diluted	<b>4.5¢</b>	<b>0.2¢</b>	<b>7.0¢</b>	<b>0.4¢</b>
Weighted average # of shares outstanding - basic	<b>27,592,159</b>	88,737,303	<b>21,554,813</b>	88,666,058
Weighted average # of shares outstanding – fully diluted	<b>27,932,159</b>	88,737,303	<b>21,894,813</b>	88,666,058

See notes to the unaudited interim consolidated financial statements

**Trelawney Mining and Exploration Inc.**  
(formerly Trelawney Resources Inc.)  
**Interim Consolidated Statement of Cash Flow**  
(Expressed in Canadian Dollars)

	<b>Three months ended September 30, 2009</b>	Three months ended September 30, 2008	<b>Nine months ended September 30, 2009</b>	Nine months ended September 30, 2008
<b>Operations</b>				
Loss	\$ (1,256,873)	\$ (165,784)	\$ (1,510,885)	\$ (397,785)
Adjustments to reconcile net income (loss) to cash flow from operating activities:				
Stock-based compensation	819,000	-	819,000	6,000
Write-down of mineral properties	-	90,505	-	90,505
Net change in non-cash operating working capital items:				
Prepaid expense	(19,406)	(27,528)	(10,874)	(17,538)
GST recoverable	(20,287)	11,006	(7,264)	1,484
Accounts payable and accruals	40,351	(4,664)	(45,883)	(53,213)
	<b>(437,215)</b>	<b>(96,465)</b>	<b>(755,906)</b>	<b>(370,547)</b>
<b>Financing</b>				
Issuance of common shares, net of subscription receivable	2,978,552	-	3,220,364	-
	<b>2,978,552</b>	<b>-</b>	<b>3,220,364</b>	<b>-</b>
<b>Investing</b>				
Marketable securities	-	-	-	(26,250)
Additions to mineral properties and deferred costs	(563,461)	(294,007)	(640,817)	(1,235,568)
	<b>(563,461)</b>	<b>(294,007)</b>	<b>(640,817)</b>	<b>(1,261,818)</b>
<b>Net increase (decrease) in Cash and cash equivalents</b>	<b>1,977,876</b>	<b>(390,472)</b>	<b>1,823,641</b>	<b>(1,632,365)</b>
Cash and cash equivalents, beginning of year	217,909	1,015,510	372,144	2,257,403
<b>Cash and cash equivalents, End of Year</b>	<b>\$ 2,195,785</b>	<b>\$ 625,038</b>	<b>\$ 2,195,785</b>	<b>\$ 625,038</b>
Cash and cash equivalents are comprised of:				
Cash	2,181,485	125,038	2,181,485	125,038
Short-term investments	14,300	500,000	14,300	500,000
	<b>\$ 2,195,785</b>	<b>\$ 625,038</b>	<b>\$ 2,195,785</b>	<b>\$ 625,038</b>

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

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

**Notes to Unaudited Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2009 and 2008**

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**General**

Trelawney Resources 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 and production in Ontario.

**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**

The Company is in the process of exploring and evaluating its mineral properties. 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 September 30, 2009 the Company had working capital of \$2,172,494, had not yet achieved profitable operations, has accumulated losses of \$4,289,849 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.

The Company's ability to continue as a going concern is dependent upon its ability to fund its research and development programs, and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Management plans to secure the necessary financing through a combination of the exercise of existing 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 Unaudited Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2009 and 2008**

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**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 September 30, 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 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 generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompany notes. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

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

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**Notes to Unaudited Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2009 and 2008**

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***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.

***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.

***Loss (income) per Share***

Loss (income) 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***

Section 3855 – "Financial Instruments – Recognition and Measurement" prescribes when a financial asset, financial liability, or non-financial derivative should be recognized on the balance sheet as well as its measurement amount. This section also specifies how financial instruments gains and losses are to be presented.

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale financial assets", "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

***Comprehensive Income***

Section 1530 – "Comprehensive Income" introduces the concept of comprehensive income to Canadian GAAP. Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from Investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income. During the year, the Company classified its investments in marketable securities as held-for-trading. These securities were marked to their fair value at December 31, 2008. Market value on these marketable securities was equal to carrying value and therefore there was no impact on the consolidated financial statements.

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***Recognition and Measurement of Financial Instruments***

Section 3855 establishes standards for the recognition and measurement of financial instruments. It requires all financial instruments within its scope, including derivatives, to be included on a company's balance sheet and measure either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. This standard also specifies when gains or losses as a result of changes in fair value are to be recognized in the consolidated statement of operations and comprehensive loss.

The Company has designated its cash and cash equivalents as held for trading, which are measure at fair value. GST and other receivables are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company has no available for sale instruments.

***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 period ended September 30, 2009, the Company had no hedges in place.

The application of these new standards has no impact on the Company's financial statements as at and for the period ended September 30, 2009.

***3. Current and Future Changes in Accounting Policies***

**New Accounting Policies:**

Capital Disclosures and Financial Instruments - disclosures presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosure (Handbook Section 1535); Financial Instruments Disclosures Handbook Section 3862); and Financial Instruments Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

**Capital Disclosures**

Handbook Section 1535 specifies the disclosures of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

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 manages its capital structure in a manner that provides sufficient funding for operational activities. 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 cash, and short term guarantee deposits, all held with major Canadian financial institutions.

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**Notes to Unaudited Interim Consolidated Financial Statements**  
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The Company manages its capital to ensure that the Company and its subsidiaries will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements. The current capital structure consists of cash and shareholders' equity excluding accumulated other comprehensive income (loss). 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.

**Section 3064 - Goodwill and intangible assets**

Effective January 1, 2009, the Company will adopt Section 3064 "Goodwill and intangible assets" which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company presently does not have any goodwill and therefore the adoption of this new policy will have no impact on the Company at the present time.

**Convergence with International Financial Reporting Standards**

The Canadian Institute of Chartered Accountants plans to transition Canadian GAAP for public companies to International Financial Reporting Standards ("IFRS"). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Corporation's consolidated financial statements is not yet determinable.

**Other Standards**

The CICA issued new accounting standard Section 3031 Inventory which becomes effective for the fiscal year beginning on or after October 1, 2008. Section 3031 establishes standards for the measurement of inventories, allocations of overhead, accounting for write-downs and disclosures. The Corporation has determined that this new standard will have no material impact on the financial statements.

**Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

**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 three months ended March 31, 2009 resulting in no significant impact on its consolidated financial statements.

**Financial Instruments**

Handbook Section 3862 and 3863 replaces HB s.3861, Financial Instruments Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

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**Notes to Unaudited Interim Consolidated Financial Statements**  
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The Company has made the following classifications:

Cash	Held for trading
Marketable Securities	Held to trading
GST Receivable	Other Receivables
Accounts payable and accrued liabilities	Other liabilities

Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are expensed on initial recognition.

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.

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.) Sensitivity analysis

The Company has designated its cash and cash equivalents as held for trading, which is measured at fair value; the carrying amount of the financial instruments equals fair market value.

Management believes that, based on their knowledge and experience of financial markets, the following sensitivity analysis is appropriate for its cash and cash equivalents and its exposure to foreign exchange risk: The Company's funds are held primarily in short term investments grades deposits, the rates of which are fixed for a period not exceeding three months.

iv.) Political Risk

The properties are located in Canada, and accordingly, the Company is subject to risks normally associated with exploration for and development of mineral properties in Canada. Therefore the Company is not exposed to significant political risks.

The Company's ability to conduct future exploration and development activities is subject to changes in government regulations and shifts in political attitudes over which Trelawney Resources Inc. has no control.

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**Notes to Unaudited Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2009 and 2008**

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v.) Business Risk

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 of Trelawney 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. Trelawney 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 Trelawney's operations and financial performance.

vi.) 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.

vii.) 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 September 30, 2009, the Company had current assets of \$2,297,856 (2008 - \$410,177) and current liabilities of \$125,362 (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 \$2,172,494 (2008 - \$274,987).

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**Notes to Unaudited Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2009 and 2008**

**4. Mineral Properties and Deferred Costs**

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

	<b>30-Sep-09</b>				
	Opening Balance	Additions	Disposals	Option Payments	Net
	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Massey</b>	59,762	79,624	-	-	139,386
<b>Mishi</b>	525,609	11,258	-	-	536,867
<b>Dorset Au</b>	2,823,425	17,220	-	-	2,840,645
<b>Martin - Murgor</b>	798,021	-	-	-	798,021
<b>Young Shannon</b>	-	12,145	-	-	12,145
<b>Chester</b>	-	1,221,625	-	-	1,221,625
<b>Other</b>	552,225	15,000	-	-	567,225
	<b>4,759,042</b>	<b>1,356,872</b>	<b>-</b>	<b>-</b>	<b>\$ 6,115,914</b>

	<b>31-Dec-08</b>				
	Opening Balance	Additions	Disposals	Option Payments	Net
	(\$)	(\$)	(\$)	(\$)	(\$)
Massey	622,635	-	(562,873)	-	59,762
Mishi	385,532	140,077	-	-	525,609
Dorset Au	2,325,285	498,140	-	-	2,823,425
Martin - Murgor	162,344	635,677	-	-	798,021
Other	125,450	426,775	-	-	552,225
	<b>3,621,246</b>	<b>1,700,669</b>	<b>(562,873)</b>	<b>-</b>	<b>\$ 4,759,042</b>

***Chester 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 host the Chester Gold Mine in Chester Township, northern Ontario. The mine has a historical mineral resource of 159,000 tons grading 0.43 oz /ton gold (NI-43-101 non-compliant). The mine was developed to a depth of 550 feet in the 1980's, but not put into production. Underground development includes a decline ramp, over 2300 feet of lateral drifting on three levels, and 300 feet of raises on ore.

***Young Shannon Property***

On August 20, 2009, the Company signed an acquisition agreement with Metallum Resources Inc. ("Metallum") to acquire 100% of Metallum's 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. The Young-Shannon Property consists of 11 patented and 18 unpatented mining claims. The property has a historical indicated mineral resource of 220,000 tons grading 0.354 oz/ton gold and an inferred mineral resource of 725,000 tons grading 0.16 oz/ton gold on the property's C-Prime gold deposit (NI 43-101 non-compliant). In September, Trelawney commissioned and received an updated NI 43-101 geological report on the Young Shannon property.

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***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

***Dorset Au Property***

In November 2005 Trelawney entered into an agreement with MetalCORP to earn a 50% interest in the Dorset property (5 claims totaling 18 units) located about 60 km west of Wawa, Ontario. Trelawney must satisfy the following obligations:

	Cash	Common Shares
2005 (paid)	\$ 20,000	150,000
2006 (paid)	25,000	150,000
2007 (paid)	35,000	150,000
2008 (paid)	140,000	450,000
	\$ 220,000	900,000

Trelawney can earn an additional 20% by completing a feasibility study, making cash payment of \$100,000, and issuing 500,000 common shares.

***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.

***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
	\$ 200,000	750,000	\$ 1,500,000

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.

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***Nairn Property***

In July 2006, Trelawney entered into an option agreement to acquire 100% undivided interest in the Nairn Property, which comprised 11 claims totaling 80 units. The agreement requires Trelawney must satisfy the following obligations:

	Cash	Common Shares
2006 (paid)	\$ 5,000	25,000
2007 (paid)	10,000	50,000
2008	15,000	50,000
2009	20,000	50,000
2010	20,000	50,000
2011	40,000	50,000
	<u>\$ 110,000</u>	<u>275,000</u>

The property is subject to a royalty equal to 2% of net smelter returns. Trelawney has the sole exclusive right to purchase one-half of the net smelter return for \$1.0 million. The property was returned to the vendor and written-off in the third quarter of 2008.

**Mexican Properties**

***La Bufa Property***

On November 26, 2007 Trelawney announced that it signed a letter of agreement with West Timmins Mining Inc. (WTM) to earn a 50% interest in WTM's La Bufa copper-gold-silver project located in Chihuahua, Mexico. Under the terms of the agreement Trelawney may earn the 50% interest in the La Bufa project by funding US\$1,000,000 in exploration over 5 years, making cash payments totaling CDN\$310,000 over 4 years and issuing 1,500,000 common shares to West Timmins over 3 years.

The property was returned to the vendor and written-off in the fourth quarter of 2008.

***La Bufa Azteca Property***

On December 4, 2007, Trelawney and WTM announced that they had jointly signed a letter of intent to acquire a combined 100% interest in the La Bufa Azteca property located in Chihuahua, Mexico. The 135 square kilometer La Bufa Azteca property adjoins West Timmins La Bufa property and hosts the former producing Caballero Azteca gold deposit and a number of similar copper-gold vein occurrences.

During the third quarter of 2008, Trelawney has terminated the letter of intent due to the current market condition.

**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 September 30, 2009, these held-for-trading investments have been measured at their fair value of \$9,750 (2008 – \$9,750), as determined by the closing price of the securities on the NEX on September 30, 2009. The impact to the consolidated financial statements of this revaluation to market value had a NIL effect (2008 - \$33,000) as market value was less than the carrying value as at September 30, 2009.

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**6. Sensitivity Analysis**

The Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized costs. Accounts payable and accrued liabilities, and convertible debenture are classified as other financial liabilities, which are measured at amortized cost.

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of September 30, 2009, the Company is not a producer of commodities, or valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

**7. Related Party Transactions**

Certain corporate entities that are related to the Company's officers and directors provide consulting services to Trelawney. These expenditures, which have been recorded at their fair market value, are summarized as follows:

<i>For the period ended September 30,</i>	<b>2009</b>	<b>2008</b>
Management and consulting fees	\$ 154,500	\$ 143,450
Legal fees	-	14,000
Deferred exploration expenditures	-	112,500

Included in accounts payable and accrued liabilities is \$3,000 (2008 - \$4,288) in amounts due to related parties.

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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	2,000,000	220,000
Issuance of share for property	4,000,000	680,000
Issuance of shares for debt*:	268,828	21,812
Consolidation 5:1	(71,822,159)	-
Finder's fee	160,000	23,600
Fair market value assigned to warrants	-	(1,418,000)
Cost of issuance	-	(153,598)
<b>Balance at September 30, 2009</b>	<b>39,647,591</b>	<b>\$ 8,518,438</b>

**Private Placements**

Details of private placements completed during the period ended September 30, 2009, is as follows:

Date of issuance	May 27, 2009	August 21, 2009	August 27, 2009	Total
Number of units issued	2,000,000	11,115,000	4,173,234	17,288,234
Price of issue	\$ 0.11	\$0.20	\$0.17	
Gross proceeds of issue	\$ 220,000	\$2,223,000	\$ 709,450	\$ 3,152,450
Number of common shares issued	2,000,000	11,115,000	4,173,234	17,288,234
Number of common share purchase warrants	-	5,557,500	2,086,617	7,644,117
Number of common share broker warrants	-	-	-	
Exercise price per purchase warrant and broker warrant	\$ -	\$ 0.30	\$ 0.30	
Expiry date of warrants		August 27, 2010	August 27, 2010	

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

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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. During fiscal 2006, an amendment to the stock option plan was approved which 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 September 30, 2009 the Company had 268,283 (2008 – 4,827,742) options available for issuance.

	September 30, 2009		December 31, 2008	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at beginning of period	\$ 0.56	650,000	\$ 0.15	3,050,000
Transaction during the period:				
Granted	0.33	2,810,000	0.11	300,000
Exercised	-	-	-	-
Forfeited	(0.94)	(160,000)	0.10	(100,000)
Outstanding at end of period	<u>0.35</u>	<u>3,300,000</u>	<u>0.15</u>	<u>3,250,000</u>
Exercisable at end of period	<u>\$ 0.35</u>	<u>3,300,000</u>	<u>\$ 0.15</u>	<u>3,250,000</u>

The following table provides additional information about outstanding stock options at September 30, 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
\$ 0.10 - \$1.00	3,300,000	4.40	\$ 0.35	3,300,000	\$ 0.35
\$ 0.10 - \$1.00	3,300,000	4.40	\$ 0.35	3,300,000	\$ 0.35

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 period ended September 30, 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	132.14%	132.51%	
Risk-free interest rate	2.65%	2.63%	
Dividend yield	-	-	
Fair value of options granted	\$ 206,000	\$ 613,000	\$819,000
Stock-based compensation expense	<u>\$ 206,000</u>	<u>\$ 613,000</u>	<u>\$819,000</u>

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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	<b>February 6, 2008</b>
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
	8,644,117	

The following table summarizes the assumptions used with the Black-Scholes valuation model during the period ended September 30, 2009:

Grant date	August 21, 2009	August 26, 2009	August 27, 2009	August 27, 2009	Totals
No. of warrants	1,625,000	3,592,500	2,426,617	1,000,000	8,644,117
Exercise price	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.17	
Expected life in years	1	1	1	1	
Volatility	222.15%	220.14%	220.14%	220.14%	
Risk-free interest rate	1.25%	1.19%	1.20%	1.19%	
Dividend yield	-	-	-	-	
Fair value of warrants	\$ 276,000	\$ 694,000	\$ 448,000	\$ 222,000	\$1,640,000

**9. Contributed Surplus**

<b>As at September 30,</b>	<b>2009</b>	<b>2008</b>
Balance at beginning of year	\$ 1,465,819	\$ 1,459,819
Stock-based compensation expense	819,000	6,000
Fair market value to warrants issued	1,640,000	-
Balance at end of period	\$ 3,924,819	\$ 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:

	2008	2007
	\$	\$
Loss before income taxes	(849,547)	(389,070)
Combined Statutory rate	<u>33.50%</u>	<u>36.10%</u>
Estimated recovery of income taxes	(285,000)	(140,000)
Permanent differences	8,000	13,000
Change in valuation allowance	(58,000)	(857,128)
Difference between current and future tax rates	<u>72,000</u>	<u>-</u>
Recovery for future income taxes	<u>(263,000)</u>	<u>(984,128)</u>

The Canadian statutory income tax rate of 33.5% (2007 - 36.12%) is comprised of the federal income tax rate at approximately 19.5% (2007 - 22.12%) and the provincial income tax rate of approximately 14.00% (2007 - 14.00%). The primary differences which give rise to the future income tax recoveries at December 31, 2008 and 2007 are as follows:

	2008	2007
	\$	\$
<b><i>Future income tax assets</i></b>		
Share issuance costs	34,000	59,000
Other	7,000	1,000
Operating losses carried forward	<u>697,000</u>	<u>798,000</u>
	<u>738,000</u>	<u>858,000</u>
Less : valuation allowance	-	(289,000)
Net future tax assets	<u>738,000</u>	<u>569,000</u>
<b><i>Future tax liabilities</i></b>		
Deferred exploration expenses	<u>(873,000)</u>	<u>(569,000)</u>
Net future tax liabilities	<u>(873,000)</u>	<u>(569,000)</u>
Net future tax liability	<u>(135,000)</u>	<u>-</u>

The unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately \$118,000 (2007 - \$179,000) and will be deductible in Canada over the next three years.

As at December 31, 2008, the Company has \$1,619,500 (2007 - \$1,352,900) 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. The Company also has \$2,404,600 (2007 - \$2,418,600) in non-capital losses carry-forward for which no benefit has been recognized in the accounts. These losses expire as follows:

**11. Commitments**

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The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

### **11. Capital Management**

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders; and
- to maintain a flexible capital structure, which optimizes the cost of capital, at an acceptable risk.

The capital structure of the Company consists of cash and cash equivalents and shareholders' equity is comprised of share capital, contributed surplus, warrants and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company, subject to approval of the Board of Directors, may attempt to issue new shares, issue new debt or acquire or dispose of assets. The Company may also adjust the amount of cash and short-term investments balances.

The company expects that its current capital resources will be sufficient to meet its financial commitments, including planned exploration on its mineral properties and administrative expenditures.

### **12. Financial Instruments**

#### Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these investments.

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.