

TAWSHO MINING INC.
(A Development Stage Company)

Interim Consolidated Financial Statements

Unaudited – prepared by management

Third quarter

For the three and nine months ended September 30, 2010

Tawsho Mining Inc.
(A Development Stage Company)
Table of Contents
For the three and nine months ended September 30, 2010

| | Page |
|---|-------------|
| CONSOLIDATED FINANCIAL STATEMENTS | |
| Notice of No Auditor Review of the Interim Consolidated Financial Statements | 2 |
| Interim Unaudited Consolidated Balance Sheets | 3 |
| Interim Unaudited Consolidated Statements of Operations, Comprehensive (Loss) Income and Deficit | 4 |
| Interim Unaudited Consolidated Statements of Cash Flows | 5 |
| Interim Unaudited Consolidated Statements of Comprehensive (Loss) Income And Accumulated Other Comprehensive Income | 6 |
| Notes to the Interim Unaudited Consolidated Financial Statements | 7-15 |

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim consolidated financial statements; they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying interim unaudited consolidated financial statements of Tawsho Mining Inc. (the "Corporation") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

TAWSHO MINING INC.
(A Development Stage Company)
INTERIM UNAUDITED CONSOLIDATED BALANCE SHEETS

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Note 3) | \$ 2,479,186 | \$ 633,337 |
| Term deposits (Note 4) | - | 2,573,509 |
| Goods and services tax and Quebec sales tax receivable | 85,450 | 152,401 |
| Mining tax credits receivable (Note 6) | 208,772 | 250,676 |
| Prepaid expenses and deposit | 18,658 | 8,258 |
| | 2,792,066 | 3,618,181 |
| Equipment (Note 5) | 1,415 | 1,700 |
| Mining Assets (Note 6) | | |
| Interests in mining properties and deferred exploration expenditures | 4,162,220 | 3,545,337 |
| | \$ 6,955,701 | \$ 7,165,218 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 10) | \$ 148,611 | \$ 96,120 |
| Future income tax payable | 322,800 | 386,500 |
| | 471,411 | 482,620 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 7) | 7,000,372 | 6,982,872 |
| Warrants (Note 8) | - | 214,895 |
| Contributed Surplus (Note 9) | 1,479,286 | 1,218,475 |
| Accumulated other comprehensive income | 289 | - |
| Deficit | (1,995,657) | (1,733,644) |
| | 6,484,290 | 6,682,598 |
| | \$ 6,955,701 | \$ 7,165,218 |

The accompanying notes are an integral part of these interim unaudited financial statements

Nature of operations and going concern (Note 1)
 Related party transactions (Note 10)
 Commitments (Notes 14)
 Contingencies (Notes 15)
 Subsequent events (Note 16)

Approved on behalf of the Board:

Joseph Feldman, Director

Vance White, Director

TAWSHO MINING INC.

(A Development Stage Company)

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE (LOSS) INCOME AND DEFICIT

| | FOR THE 3 MONTHS ENDED | | FOR THE 9 MONTHS ENDED | |
|--|------------------------|-----------------------|------------------------|-----------------------|
| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| REVENUE | | | | |
| Interest | \$ 4,483 | \$ 252 | \$ 8,640 | \$ 6,637 |
| TOTAL REVENUE | 4,483 | 252 | 8,640 | 6,637 |
| Professional fees | 9,858 | 6,509 | 52,992 | 122,970 |
| Office and general | 17,328 | 11,277 | 55,441 | 58,662 |
| Management fees (Note 10) | 42,750 | 6,500 | 131,750 | 25,805 |
| Share transfer, listing and filing fees | 2,931 | 5,779 | 13,192 | 13,616 |
| Stock-based compensation (Note 7) | 13,333 | 17,716 | 38,770 | 28,738 |
| Salaries | 1,385 | 20,572 | 1,385 | 52,414 |
| Impairment of mining property (Note 16) | 40,538 | - | 40,538 | 628 |
| Amortization | 95 | 117 | 285 | 275 |
| TOTAL EXPENSES | 128,218 | 68,470 | 334,353 | 303,108 |
| NET LOSS BEFORE INCOME TAXES | (123,735) | (68,218) | (325,713) | (296,471) |
| Future income tax recovery | 27,200 | 83,000 | 63,700 | 83,000 |
| NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME | (96,535) | 14,782 | (262,013) | (213,471) |
| DEFICIT, beginning of period | (1,899,122) | (1,755,730) | (1,733,644) | (944,982) |
| SHARE ISSUE COSTS | - | - | - | (582,495) |
| DEFICIT, end of period | \$ (1,995,657) | \$ (1,740,948) | \$ (1,995,657) | \$ (1,740,948) |
| (LOSS) INCOME PER COMMON SHARE: | | | | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted | 22,687,249 | 22,562,249 | 22,642,377 | 22,562,249 |
| NET (LOSS) INCOME PER COMMON SHARE, basic and diluted | \$ (0.0043) | \$ 0.0007 | \$ (0.0116) | \$ (0.0095) |

The accompanying notes are an integral part of these interim unaudited financial statements

TAWSHO MINING INC.
(A Development Stage Company)
INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE 3 MONTHS ENDED | | FOR THE 9 MONTHS ENDED | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | | | |
| Net (loss) income for the period | \$ (96,535) | \$ 14,782 | \$ (262,013) | \$ (213,471) |
| Adjustments for non-cash items: | | | | |
| Stock-based compensation | 13,333 | 17,716 | 38,770 | 28,738 |
| Amortization | 95 | 117 | 285 | 275 |
| Impairment | 40,538 | - | 40,538 | - |
| Future income tax | (27,200) | (83,000) | (63,700) | (83,000) |
| Changes in non-cash working capital balances: | | | | |
| Goods and Services tax and Quebec sales tax receivable | 13,449 | 102,391 | 66,951 | 258,426 |
| Prepaid expenses | 3,100 | 2,295 | (10,400) | (4,180) |
| Accounts payable and accrued liabilities | 10,423 | (12,340) | (1,113) | 81,097 |
| | (42,797) | 41,961 | (190,682) | 67,885 |
| CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES | | | | |
| Bank overdraft | - | 7,726 | - | 7,726 |
| Share issue costs | - | - | - | (2,495) |
| | - | 7,726 | - | 5,231 |
| CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES | | | | |
| Interests in mining properties and deferred exploration expenditures | (384,023) | (179,081) | (537,267) | (921,447) |
| Proceed from investments in term deposits | 2,501,934 | - | 2,573,509 | - |
| Cash reserved for exploration | - | 629,833 | - | 1,123,299 |
| Acquisition of equipment | - | (509) | - | (509) |
| | 2,117,911 | 450,243 | 2,036,242 | 201,343 |
| Translation adjustment | 701 | - | 289 | - |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | 2,075,114 | 499,930 | 1,845,560 | 274,459 |
| CASH AND CASH EQUIVALENTS, beginning of period | 403,371 | 2,368,366 | 633,337 | 2,593,837 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 2,479,186 | \$ 2,868,296 | \$ 2,479,186 | \$ 2,868,296 |

The accompanying notes are an integral part of these interim unaudited financial statements

SUPPLEMENTAL INFORMATION

Non-cash transactions:

| | | | | |
|---|----------|------|----------|----------|
| Stock-based compensation included in Mining Assets | \$ 2,382 | \$ - | \$ 7,146 | \$ 2,589 |
| Income taxes paid | - | - | - | - |
| Interest paid | - | - | - | - |
| Change in accrued deferred exploration expenditures | (54,018) | - | 53,604 | 698,962 |
| Change in accrued mining tax credits receivable | - | - | 41,904 | 208,363 |
| Change in future income tax payable | 27,200 | - | 63,700 | (83,000) |
| Tax effect of renunciation of exploration expenses | - | - | - | 580,000 |

Cash and cash equivalents consist of:

| | | | | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Cash | \$ 9,186 | \$ 2,868,296 | \$ 9,186 | \$ 2,868,296 |
| Term deposit with short-term maturity | 2,470,000 | - | 2,470,000 | - |
| | \$ 2,479,186 | \$ 2,868,296 | \$ 2,479,186 | \$ 2,868,296 |

TAWSHO MINING INC.
(A Development Stage Company)
INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME AND
ACCUMULATED OTHER COMPREHENSIVE INCOME

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------------|---------------------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Comprehensive income (loss): | | | | |
| Net income (loss) | \$ (96,535) | \$ 14,782 | \$ (262,013) | \$ (213,471) |
| Other comprehensive (loss): | | | | |
| Currency translation adjustment | 704 | - | 289 | - |
| Comprehensive income (loss) | <u>\$ (95,831)</u> | <u>\$ 14,782</u> | <u>\$ (261,724)</u> | <u>\$ (213,471)</u> |
| | | | | |
| Accumulated other comprehensive income | | | | |
| Balance, beginning of period | \$ (415) | \$ - | \$ - | \$ - |
| Currency translation adjustment | 704 | - | 289 | - |
| Accumulated other comprehensive Income | <u>\$ 289</u> | <u>\$ -</u> | <u>\$ 289</u> | <u>\$ -</u> |

See accompanying notes to interim unaudited consolidated financial statements

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

1. NATURE OF OPERATIONS AND GOING CONCERN

Tawsho Mining Inc. (the “Corporation” or “Tawsho”) was created under Articles of Amalgamation in the Province of Ontario, Canada, on May 31, 2008. On that date, the prior Tawsho Mining Inc. (“Tawsho (prior)”) and a public company Jardincap Inc. (“Jardincap”) amalgamated. For accounting purposes, the Corporation’s operations are considered a continuation of Tawsho (prior)’s operations and the resultant successor of the amalgamated companies. Prior to amalgamation, Tawsho (prior) was incorporated in Ontario on November 28, 2006. On May 31, 2008, the Corporation amalgamated with Jardincap and effectively created a publicly listed company on the TSX Venture Exchange (“TSX-V”), that continues to operate as Tawsho Mining Inc.

On July 28, 2008, the amalgamated Corporation was relisted for trading on the TSX-V under the symbol TAW. The Corporation, which is in the development stage, with mineral property interests located in Québec, is engaged in the acquisition, exploration and development of properties for the mining of precious and base metals. The Corporation is accounted for as a development stage company in accordance with accounting guideline “AcG -11” of the Canadian Institute of Chartered Accountants (“CICA”) Handbook. The Corporation is in the process of exploring its mining properties for mineral resources and has not determined whether the properties contain economically recoverable reserves.

In June 2010, Tawsho Mining (Mali) Inc. (“Tawsho Mali”) was incorporated as a Barbados company for the purpose of conducting gold exploration in Mali, Africa.

Going concern

These interim unaudited consolidated financial statements have been prepared in accordance with the assumption that the Corporation will continue as a going concern, which is dependent upon its ability to continue to raise financing and to commence profitable operations in the future. The Corporation incurred a net loss of \$96,535 and \$262,013 for the three and nine months ended September 30, 2010 respectively. The Corporation has a consolidated deficit of \$1,995,657 at September 30, 2010. Management continues to actively pursue additional financing and strive to obtain and thereafter maintain profitable operations to support the validity of the “going concern” assumption. These interim unaudited consolidated financial statements do not purport to give effect to adjustments, if any, that may be necessary should the Corporation be unable to continue and, therefore, be required to realize its assets and discharge its liabilities in other than the ordinary course of business. Such adjustments could be material.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Corporation to raise alternative financing, if necessary, or alternatively upon the Corporation’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company’s assets may also be subject to increase in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Corporation has taken steps to verify title to its property interests in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Corporation's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

The accompanying interim unaudited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. The preparation of these interim unaudited consolidated financial statements is based on accounting principles and practices consistent with those used in the preparation of the annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. Operating results for the period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2010. The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete financial statements. For further information, see the financial statements including the notes thereto for the year ended December 31, 2009.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

2. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Principles of Consolidation

These interim unaudited consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Tawsho Mali. All significant inter-company transactions have been eliminated.

Future Accounting Changes

(a) International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for the interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. Management is currently assessing the impact of adoption of IFRS.

(b) Consolidations and Non-controlling Interests

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements” and Section 1602 “Non-controlling Interests” to replace Section 1600, ‘Consolidated Financial Statements’. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards of accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of the International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements.’ These standards are effective for interim and annual financial statements beginning on or after January 1, 2011, which for the Corporation is January 1, 2011. The Corporation has not yet determined the impact of the adoption of these sections on its consolidated financial statements.

(c) Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011, which for the Corporation is January 1, 2011. Early adoption is permitted. This section replaces Section 1581, “Business Combinations” and harmonizes the Canadian standards with international financial reporting standards (“IFRS”). The Corporation has not yet determined the impact of the adoption of these sections on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid short-term bank balances and investments in term deposits with maturities of three months or less. As at September 30, 2010, the Corporation had a balance of \$2,470,000 (Q3-2009:\$Nil) in term deposits with maturities of three months or less.

4. TERM DEPOSITS

Term deposits are investments with maturities of three months or more. As at September 30, 2010, the Corporation had a balance of \$Nil (Q3-2009:\$2,868,296) in term deposits with maturities of three months or more.

5. EQUIPMENT

| | September 30, 2010 | | | December 31, 2009 | | |
|-----------|-----------------------|-----------------------------|-------------------|----------------------|-----------------------------|-------------------|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Telephone | 1,760 | 681 | 1,079 | 1,760 | 493 | 1,267 |
| Computer | 509 | 173 | 336 | 509 | 76 | 433 |
| | <u>2,269</u> | <u>854</u> | <u>1,415</u> | <u>2,269</u> | <u>569</u> | <u>1,700</u> |

During the three and nine months ended September 30, 2010, the Corporation expensed \$95 and \$285 respectively in the statement of operations (Q3 – 2009: \$117 and \$275 respectively.)

6. MINING ASSETS

Chevrier Property

The Chevrier Property consists of 557 contiguous mining claims where the Corporation has a 100% interest in 515 of them, all located in the townships of Queylus, Haury, Fancamp and La Dauversiere in the Province of Quebec. Some of these claims are subject to royalties ranging from 7.5% - 10% on net profits of production and to 0.5% royalty of the net smelter returns.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

6. MINING ASSETS (continued)

Whisker Valley, Newfoundland

Pursuant to the option agreement (the "Option Agreement") with Rhino Exploration Ltd. ("Rhino") signed in February 2010 and approved by the TSX-V in April 2010, the Corporation can acquire a 100% ownership interest of Rhino's Whisker Valley claims located on Baie Verte Peninsula, Newfoundland, covering approximately 235 sq. km. Upon approval of the Option Agreement by the TSX-V, the Corporation made an initial payment of \$40,000 in cash and issued 125,000 common shares to Rhino's shareholders. The Option Agreement provides for additional periodic payments to Rhino totalling \$1,350,000 in cash and the issuance to Rhino of 1,525,000 common shares of the Corporation by April 2018. In addition, Tawsho is obligated to spend \$2,050,000 in exploration expenditures by April 8, 2014 and to pay a 3% Net Smelter Royalty (NSR) with the option to repurchase 1% for \$1,000,000 (Note 14 – Commitments).

The Company also entered into a letter agreement (the "Chamberlain Agreement") with Roland Chamberlain ("Chamberlain") dated October 15, 2010, to acquire a 100% ownership interest in the mineral claim blocks and any related license granted by the province of Newfoundland.

The Chamberlain Agreement provides for a 3% Net Smelter Returns royalty ("NSR") to Chamberlain, with the option for Tawsho to repurchase two-thirds of the NSR for CAD \$2M. It also provides for the Company to spend \$10,000 per annum for exploration expenditures starting October 15, 2011 (Note 14 – Commitments).

Mali, Africa

During the nine months ended September 30, 2010, the Corporation paid consulting fees to assess the potential of a gold concession in the south of Mali.

| | NON-PRODUCING PROPERTIES | | | TOTAL |
|-----------------------------------|--------------------------|----------------|----------|-----------|
| | Chevrier | Whisker Valley | | |
| | Quebec | Newfoundland | Mali | |
| | (\$) | (\$) | (\$) | (\$) |
| Balance, December 31, 2009 | 3,545,337 | - | - | 3,545,337 |
| PROPERTY ACQUISITION COSTS | 3,016 | 57,500 | - | 60,516 |
| DEFERRED EXPLORATION COSTS | | | | |
| Drilling | 34,140 | 144,743 | - | 178,883 |
| Sampling | 6,475 | 29,209 | - | 35,684 |
| Feasibility | - | 69,684 | - | 69,684 |
| Geological and geophysical | 35,659 | 231,144 | 40,538 | 307,341 |
| Permitting | 4,583 | 730 | - | 5,313 |
| Impairment and abandonment | - | - | (40,538) | (40,538) |
| Balance, September 30, 2010 | 3,629,210 | 533,010 | - | 4,162,220 |

Mining Tax Credit Receivable

The Corporation has accrued approximately \$208,772 (2009 - \$250,676) in government assistance receivable related to eligible expenditures in the province of Québec for the period ended September 30, 2010. The Corporation receives this assistance in the form of refundable tax credits from the Québec Provincial Government and mining duties returns from Québec Ministry of Natural Resources. During the nine months ended September 30, 2010, \$41,904 (2009 - \$nil) in government assistance was received.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

7. SHARE CAPITAL

Authorized

Unlimited Common shares
 Unlimited Preferred shares

Issued

| | <u>#</u> | <u>\$</u> |
|---|-------------------|------------------|
| Common shares | | |
| Outstanding common shares at December 31, 2009 | 22,562,249 | 6,982,872 |
| Issued pursuant to Option agreement | 125,000 | 17,500 |
| Outstanding common shares at September 30, 2010 | <u>22,687,249</u> | <u>7,000,372</u> |

On April 8, 2010, 125,000 common shares valued at \$0.14 per share were issued to Rhino pursuant to the approval of the Option Agreement by TSX-V.

Stock Options

The shareholders of the Corporation approved the Corporation's existing stock option plan, ("the Plan"), to be administered by the directors of the Corporation. Under the Plan, the Corporation may grant to directors, officers, employees and consultants options to purchase shares of the Corporation. The Plan provides for the issuance of stock options to acquire up to 10% of the Corporation's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Corporation's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed 5 years. The plan provides that, it is solely within the discretion of the board to determine who should receive stock options, the amounts of stock options to be granted and the vesting period of the options. In no case (calculated at the time of grant) shall the plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Corporation;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Corporation;
- The number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Corporation;

Summary of stock option activity for the period ended September 30, 2010:

| | September 30, | | December 31, | |
|------------------------------|----------------------|----------------------------|---------------------|-------------------------|
| | 2010 | | 2009 | |
| | Number of | Weighted average | Number of | Weighted |
| | options | exercise price (\$) | options | average exercise |
| | | | | price (\$) |
| Balance, beginning of period | 1,545,000 | 0.88 | 1,423,606 | 0.98 |
| Granted | 723,725 | 0.20 | 430,000 | 0.20 |
| Expired | - | - | (108,606) | 0.70 |
| Forfeited | - | - | (200,000) | 0.20 |
| Balance, end of period | <u>2,268,725</u> | <u>0.66</u> | <u>1,545,000</u> | <u>0.88</u> |

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

7. SHARE CAPITAL (continued)
Stock Options (continued)

As at September 30, 2010, the following stock options were outstanding:

| Date of expiry | No. of exercisable options | No. of outstanding options | Exercise price (\$) | Grant date fair value of options granted (\$) |
|-----------------------|-----------------------------------|-----------------------------------|----------------------------|--|
| 31-Jul-13 | 1,165,000 | 1,215,000 | 1.00 | 522,450 |
| 15-Aug-13 | 100,000 | 100,000 | 1.00 | 43,000 |
| 25-Feb-14 | 50,000 | 100,000 | 0.20 | 13,000 |
| 31-Jul-14 | 25,000 | 50,000 | 0.20 | 3,000 |
| 5-Nov-14 | 80,000 | 80,000 | 0.185 | 13,600 |
| 1-Feb-15 | - | 300,000 | 0.20 | 51,000 |
| 1-Jun-15 | - | 423,725 | 0.20 | 50,847 |
| | 1,420,000 | 2,268,725 | | 696,897 |

During the nine months ended September 30, 2010, 300,000 stock options (September 30, 2009: 100,000) were granted to a director of the Corporation for consulting services with a weighted-average grant date fair value of \$0.17 per option (September 30, 2009: \$0.13), and 423,725 stock options were granted to a consultant (September 30, 2009: nil). The options granted to the director have an exercise price of \$0.20 and will vest 100,000 each on the first, second and third anniversaries of the grant. The options granted to the consultant have an exercise price of \$0.20 and will vest over 5 years at 20% per year. The fair value of stock-based compensation relating to these options and others that vested during the nine month period ended September 30, 2010 that is charged to contributed surplus is \$45,916 (September 30, 2009:\$28,738). The fair value of stock-based compensation relating to non-employees for the same 9 month period is \$7,146 (September 30, 2009: \$2,589) is recorded as Mining Assets.

The fair value of these options was estimated on the date of the grant using Black Scholes option pricing model using the following assumptions:

| | Q3 - 2010 | Q3 - 2009 |
|---------------------------|------------------|------------------|
| Expected dividend yield | 0% | 0% |
| Expected volatility | 150% | 100% |
| Risk - free interest rate | 2.5% | 1.5% |
| Expected average life | 3.4 years | 2.5 years |

The weighted-average fair value of options exercisable as at September 30, 2010 is \$0.40 (Q3 – 2009: \$0.43). The weighted average exercise price of stock options exercisable as at September 30, 2010 is \$0.91 (Q3 – 2009: \$1.00).

8. WARRANTS

The warrants issued by the Corporation are subscription rights to common shares.

| | # | \$ |
|--|-------------|-----------|
| Outstanding warrants at December 31, 2008 | 7,389,751 | 824,625 |
| Warrants expired on February 1, 2009 | (3,180,000) | (38,160) |
| Warrants expired on May 9, 2009 | (3,270,500) | (542,903) |
| Warrants expired on June 30, 2009 | (263,001) | (28,667) |
| Outstanding warrants at September, 2009 | 676,250 | 214,895 |
| Warrants expired on May 29, 2010 | (426,250) | (136,400) |
| Warrants expired on July 18, 2010 | (250,000) | (78,495) |
| Outstanding warrants at September 30, 2010 | - | - |

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

9. CONTRIBUTED SURPLUS

| | September 30, | | December 31, | |
|---|----------------------|-----------|---------------------|-----------|
| | 2010 | | 2009 | |
| Balance, beginning of period | \$ | 1,218,475 | \$ | 526,964 |
| Stock-based compensation (Note 7) | | 45,916 | | 81,781 |
| Expiry of warrants, reallocation of valuation | | 214,895 | | 609,730 |
| Balance, end of period | \$ | 1,479,286 | \$ | 1,218,475 |

10. RELATED PARTY TRANSACTIONS

An amount of \$4,098 (2009: \$2,100), payable to the corporation wholly owned by a spouse of a director for bookkeeping services is included in accounts payable and accrued liabilities at September 30, 2010. Also included in accounts payable and accrued liabilities are \$8,004 (2009: \$nil) payable to a company wholly owned by the Corporation's shareholder for services of an officer, \$3,591 (2009: \$nil) payable to a director of the Corporation, and \$5,650 (2009: \$nil) payable to a corporation wholly owned by the president of the Corporation. These balances are unsecured, non-interest bearing with no fixed terms of repayment. During the nine months ended September 30, 2010, the following transactions occurred:

- a) Included in management fees is an amount of \$40,000 (2009: \$nil) paid to the president of the Corporation for consulting services
- b) Included in management fees is an amount of \$63,750 (2009: \$nil) paid to a company wholly owned by the Corporation's shareholder for services of an officer
- c) Included in management fees is an amount of \$19,500 (2009: \$13,000) paid to a company wholly owned by a spouse of a director
- d) Included in management fees is an amount of \$nil (2009: \$12,000) paid to a company wholly owned by a director
- e) Included in management fees is an amount of \$nil (2009: \$6,090) paid to an officer
- f) Included in mining assets is an amount of \$3,000 (2009: \$nil) paid to a director
- g) Included in mining assets is an amount of \$nil (2009: \$1,602) paid to an officer

Related party transactions are in the normal course of business and are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

11. FINANCIAL INSTRUMENTS

Fair value

Canadian generally accepted accounting principles require that the Corporation disclose information about the fair value of its financial assets and liabilities. Fair value estimates of financial assets and liabilities are made at the balance sheet date, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts of cash and cash equivalents, cash reserved for exploration, mining and commodity tax credits receivable, accounts payable and accrued liabilities approximate fair value because of the limited term of these instruments.

Section 3862 "Financial Instruments – Disclosures" establishes a fair value hierarchy that prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the balance sheet. These have been prioritized into three levels.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

11. FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy and Liquidity Risk Disclosure

At September 30, 2010, the Corporation's financial instruments that are carried at fair value, consisting of cash and cash equivalents and term deposits, have been classified as Level 1 within the fair value hierarchy.

The Corporation's risk exposures and the impact of the Corporation's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

Interest rate risk

The Corporation has cash and cash equivalent balances, term deposits and no debt. The Corporation's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Corporation monitors its investments and is satisfied with the credits ratings of its banks.

Credit risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owned or owing by the Corporation. Management's assessment of the Corporation's credit risk is low as it is primarily attributable to funds held in Canadian banks and goods and services tax, Québec sales tax, tax credits receivable from the Government of Canada and Québec and accounts payable.

Commodity price risk

The future profitability of the Corporation is indirectly related to the market price of metals, particularly gold.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. There can be no assurance that the Corporation will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Any equity offering will result in dilution to the ownership interests of the Corporation's shareholders and may result in dilution to the value of such interests. The Corporation intends to fulfill all of its financial obligations as they come due.

Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Corporation is exposed to these risks as the ability of the Corporation to develop or market its properties and the future profitability of the Corporation is related to the market price of certain metals.

Foreign currency risk

As at September 30, 2010, the Corporation holds USD\$6,556 of foreign currency. The balance is too small to give rise to exposure to foreign exchange risk.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Corporation believes the following movements are "reasonably possible" over a twelve-month period:

- (i) The Corporation does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk;
- (ii) Price risk is remote since the Corporation is not a producing entity
- (iii) The Corporation does not hold interest bearing debt at interest rates subject to market fluctuations to give rise to interest rate risk.

12. CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to ensure sufficient liquidity to support the acquisition, development and exploration of mining properties and maintain the necessary corporate and administrative functions to facilitate these activities. The Corporation defines capital that it manages as the aggregate of its shareholders' equity, which consists of issued shares, contributed surplus, warrants outstanding and deficit. The Corporation manages and adjusts its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements to support the acquisition and exploration of mining assets. In order to maintain or adjust the capital structure, the Corporation, upon approval from its Board of Directors, may issue shares, repurchase shares and pay dividends. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Board of Directors reviews and approves any material transactions not in the ordinary course of business which may include various acquisition proposals, as well as capital and operating budgets.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

12. CAPITAL MANAGEMENT (continued)

The property in which the Corporation currently has an interest is in the exploration stage; as such, the Corporation, is dependent on external financing to fund its activities. In order to carry out planned exploration and pay for administrative costs, the Corporation will spend its existing working capital and raise additional amounts as needed. The Corporation will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological 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 Corporation, is reasonable. The Corporation is not subject to externally imposed capital requirements.

There were no changes in the Corporation's approach to capital management for the period ended September 30, 2010.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Non-cash transactions for the nine months ended September 30, 2010 consisted of the decrease in future income tax recovery of \$63,700 (2009: \$83,000).

14. COMMITMENTS

Under the Option Agreement with Rhino (Note 6 – Mining Assets), the Corporation is committed to cash payments and the issuance of common shares totalling \$1,350,000 and 1,525,000 respectively, as follows:

| <u>Date</u> | <u>Cash (\$)</u> | <u>Shares (#)</u> |
|---------------|------------------|-------------------|
| April 8, 2011 | 75,000 | 125,000 |
| April 8, 2012 | 125,000 | 200,000 |
| April 8, 2013 | 250,000 | 400,000 |
| April 8, 2014 | 500,000 | 800,000 |
| April 8, 2015 | - | - |
| April 8, 2016 | 200,000 | - |
| April 8, 2017 | - | - |
| April 8, 2018 | 200,000 | - |
| | <u>1,350,000</u> | <u>1,525,000</u> |

In addition, the Corporation is committed to spend \$10,000 per annum and \$2,050,000 in exploration expenditures under the Chamberlain and Option Agreements respectively as follows:

| <u>Option Agreement</u> | <u>Date</u> | <u>Amount (\$)</u> | <u>Chamberlain Agreement</u> | <u>Date</u> | <u>Amount (\$)</u> |
|-------------------------|---------------|--------------------|------------------------------|------------------|--------------------|
| | April 8, 2011 | 250,000 | | October 15, 2011 | 10,000 |
| | April 8, 2012 | 400,000 | | October 15, 2012 | 10,000 |
| | April 8, 2013 | 600,000 | | October 15, 2013 | 10,000 |
| | April 8, 2014 | <u>800,000</u> | | October 15, 2014 | 10,000 |
| | | | | October 15, 2015 | <u>10,000</u> |
| | | <u>2,050,000</u> | | | <u>50,000</u> |

Under the Chamberlain Agreement, the company is committed to provide for 3% Net Smelter Returns royalty ("NSR") to Chamberlain, with the option to repurchase two-thirds of the NSR for CAD \$2M. Under the Option Agreement, the Company is committed to provide for 3% Net Smelter Royalty (NSR) with the option to repurchase 1% for \$1,000,000.

Tawsho Mining Inc.
(A Development Stage Company)
Notes to the Interim Unaudited Consolidated Financial Statements
For the nine-month period ended September 30, 2010

15. CONTINGENCIES

The Corporation's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations.

16. SUBSEQUENT EVENTS

Abandonment of concession in Mali

Subsequent to September 30, 2010, the Corporation decided not to pursue the concession in Mali based on its assessment of the geological information and data received from its consultant. As a result, the Company expensed the capitalized deferred exploration expenditures of \$40,538(2009, \$nil).

Acquisition of Mineral claims

Subsequent to September 30, 2010, the Company entered into a letter agreement (the "Chamberlain Agreement") with Roland Chamberlain ("Chamberlain") dated October 15, 2010, to acquire a 100% ownership interest in the mineral claim blocks and any related license granted by the province of Newfoundland. These mineral claims are located in the Baie Verte Peninsula, Newfoundland, adjacent to the Company's existing option rights acquired from Rhino Exploration Ltd.

The Chamberlain Agreement provides for a 3% Net Smelter Returns royalty ("NSR") to Chamberlain, with the option for Tawsho to repurchase two-thirds of the NSR for CAD \$2M. It also provides for the Company to spend \$10,000 per annum for exploration expenditures starting October 15, 2011.

17. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified from financial statements previously presented to conform to the current presentation.