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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Interim Consolidated Financial Statements**

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**September 30, 2009**

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Index to Unaudited Interim Consolidated Financial Statements**

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**September 30, 2009**

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**The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Interim Consolidated Balance Sheet**

September 30 ...	<b>2009</b>	
December 31 ...		<b>2008</b>
	\$	\$
<b>Assets</b>		
<b>Current:</b>		
Cash	1,616,736	379,937
Amounts receivable	7,206	13,764
Loan receivable	-	424,000
Prepaid expenses	40,431	37,182
Marketable securities, <i>note 6</i>	1,370,628	2,415,952
	<b>3,035,001</b>	<b>3,270,835</b>
<b>Equipment, <i>note 7</i></b>	<b>114,591</b>	<b>95,485</b>
<b>Mineral properties and deferred exploration costs, <i>note 8</i></b>	<b>21,734,229</b>	<b>20,635,810</b>
	<b>24,883,821</b>	<b>24,002,130</b>
<b>Liabilities</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities, <i>note 10</i>	100,668	330,478
Advances from PDX Resources Inc., <i>note 10</i>	-	177,803
	<b>100,668</b>	<b>508,281</b>
Future income taxes, <i>note 13</i>	234,000	395,000
	<b>334,668</b>	<b>903,281</b>
<b>Shareholders' Equity</b>		
<b>Share capital, <i>note 9 (a)</i></b>	<b>19,777,854</b>	<b>18,511,438</b>
<b>Contributed surplus, <i>note 9 (c)</i></b>	<b>305,539</b>	<b>275,950</b>
<b>Warrants, <i>notes 9 (a) and (d)</i></b>	<b>202,065</b>	<b>-</b>
	<b>20,285,458</b>	<b>18,787,388</b>
<b>Retained earnings</b>	<b>3,211,098</b>	<b>2,434,931</b>
<b>Accumulated other comprehensive income, <i>note 6</i></b>	<b>1,052,597</b>	<b>1,876,530</b>
	<b>4,263,695</b>	<b>4,311,461</b>
	<b>24,549,153</b>	<b>23,098,849</b>
	<b>24,883,821</b>	<b>24,002,130</b>

Commitments and contingencies, notes 1, 8 and 11  
Subsequent events, note 15

See accompanying notes to the unaudited interim consolidated financial statements.

Approved on behalf of the Board:

"Carl Nurmi", Director

"Ingrid Hibbard", Director

**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Consolidated Interim Statements of Operations**

	For the three months ended September 30... <b>2009</b>	<b>2008</b>		
	For the nine months ended September 30...		<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Revenue:</b>				
Interest	<b>23</b>	<b>3,883</b>	<b>541</b>	<b>7,565</b>
<b>Expenses:</b>				
Salaries and employee benefits	183,707	52,470	372,199	95,519
Consulting services	8,890	18,275	60,225	83,987
Foreign exchange loss	8,745	28,943	32,096	28,943
General exploration	88	5,366	3,575	6,842
Insurance	11,957	4,325	33,499	6,626
Interest on advances from PDX Resources Inc, note 10	-	-	5,250	-
Interest on short term debt	-	43,009	-	258,494
Investor relations	48,203	49,741	259,016	78,622
Office and general	28,246	26,229	96,274	48,442
Professional fees	65,538	84,228	174,426	159,709
Rent	19,634	2,954	41,756	7,591
Transfer agent and filing fees	16,653	8,197	34,796	22,949
Travel	632	3,936	2,867	13,998
Stock-based compensation cost	5,701	30,420	33,489	160,777
Vehicle	-	-	364	-
Amortization	8,190	8,703	23,551	23,790
	<b>406,184</b>	<b>366,796</b>	<b>1,173,383</b>	<b>996,289</b>
<b>Loss from operations</b>	<b>(406,161)</b>	<b>(362,913)</b>	<b>(1,172,842)</b>	<b>(988,724)</b>
<b>Other income (loss):</b>				
Gain (loss) on disposal of marketable securities	1,261,196	(57)	1,877,009	(125,673)
Write down of mineral property	(12,000)	-	(12,000)	-
	<b>1,249,196</b>	<b>(57)</b>	<b>1,865,009</b>	<b>(125,673)</b>
<b>Income (loss) before income taxes</b>	<b>843,035</b>	<b>(362,970)</b>	<b>692,167</b>	<b>(1,114,397)</b>
<b>Future income taxes, note 13</b>	<b>50,000</b>	<b>51,000</b>	<b>84,000</b>	<b>251,000</b>
<b>Net income (loss) for the period</b>	<b>893,035</b>	<b>(311,970)</b>	<b>776,167</b>	<b>(863,397)</b>
<b>Net income (loss) per common share:</b>				
- basic	0.01	(0.00)	0.01	(0.01)
- diluted	0.01	(0.00)	0.01	(0.01)
<b>Weighted average common shares outstanding</b>				
- basic	<b>86,632,557</b>	<b>73,762,372</b>	<b>83,599,390</b>	<b>73,762,372</b>
- diluted	<b>88,813,937</b>	<b>73,762,372</b>	<b>87,825,181</b>	<b>73,762,372</b>

See accompanying notes to the unaudited interim consolidated financial statements.

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Consolidated Interim Statements of Comprehensive (Loss) Income**

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	<b>2009</b>	<b>2008</b>		
For the three months ended September 30...			<b>2009</b>	<b>2008</b>
For the nine months ended September 30...			<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Net income (loss) for the period	893,035	(311,970)	776,167	(863,397)
Other comprehensive income (loss) for the period:				
Change in unrealized gains				
on available-for-sale securities	299,404	(12,860,400)	892,204	(81,534)
Tax effect of unrealized gains	(39,000)	3,578,200	(20,000)	1,751,100
Reclassification to net income				
of gain realized from available-for-sale				
marketable securities	(1,119,487)	-	(1,696,136)	(68,962)
Valuation allowance	19,000	(26,100)	-	(26,100)
<b>Comprehensive income (loss)</b>				
<b>for the period</b>	<b>52,952</b>	<b>(9,620,270)</b>	<b>(47,765)</b>	<b>711,107</b>

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See accompanying notes to the unaudited interim consolidated financial statements.

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Consolidated Interim Statements of Retained Earnings**

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	<b>2009</b>	<b>2008</b>		
For the three months ended September 30...			<b>2009</b>	<b>2008</b>
For the nine months ended September 30...			<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Retained earnings,</b>				
<b>beginning of period</b>	2,318,063	1,811,065	2,434,931	2,362,492
<b>Net income (loss) for the period</b>	893,035	(311,970)	776,167	(863,397)
<b>Retained earnings, end of period</b>	<b>3,211,098</b>	<b>1,499,095</b>	<b>3,211,098</b>	<b>1,499,095</b>

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See accompanying notes to the unaudited interim consolidated financial statements.

**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Unaudited Consolidated Interim Statements of Cash Flows**

	<b>2009</b>	<b>2008</b>		
For the three months ended September 30...			<b>2009</b>	<b>2008</b>
For the nine months ended September 30...			\$	\$
	\$	\$	\$	\$
<b>Cash was provided by (used for):</b>				
<b>Operating activities:</b>				
Net income (loss) for the period	893,035	(311,970)	776,167	(863,397)
Items not affecting cash:				
Future income taxes	(50,000)	(51,000)	(84,000)	(251,000)
(Gain) loss on sale of marketable securities	(1,261,196)	57	(1,877,009)	125,673
Accretion of notes payable	-	117,392	-	150,000
Write down of mineral properties	12,000	-	12,000	-
Amortization	8,190	8,703	23,551	23,790
Stock-based compensation	5,701	30,420	33,489	160,777
	<b>(392,270)</b>	<b>(206,398)</b>	<b>(1,115,802)</b>	<b>(654,157)</b>
Cash was provided by (used to finance) changes in the following working capital items:				
Amounts receivable	1,325	30,569	6,558	7,390
Prepaid expenses	9,763	79,592	(3,249)	(14,614)
Accounts payable and accrued liabilities	(75,606)	(210,940)	(57,533)	(230,027)
Advances from PDX Resources Inc.	-	389,718	(177,803)	399,893
	<b>(64,518)</b>	<b>288,939</b>	<b>(232,027)</b>	<b>162,642</b>
	<b>(456,788)</b>	<b>82,541</b>	<b>(1,347,829)</b>	<b>(491,515)</b>
<b>Financing activities:</b>				
Issuance of notes payable	-	-	-	3,000,000
Private placement, net of issue costs	-	-	1,154,590	-
Options exercised	-	-	11,800	-
Warrants exercised	200,000	-	280,000	-
Adjustment on spin-out	-	35,314	-	(802,107)
	<b>200,000</b>	<b>35,314</b>	<b>1,446,390</b>	<b>2,197,893</b>
<b>Investing activities:</b>				
Proceeds from sale of marketable securities	1,692,708	-	2,542,400	130,496
Equipment additions	(2,696)	(4,567)	(42,657)	(24,155)
Additions to mineral properties and deferred exploration costs	(450,607)	(819,963)	(1,361,505)	(2,640,217)
	<b>1,239,405</b>	<b>(824,530)</b>	<b>1,138,238</b>	<b>(2,533,876)</b>
<b>Change in cash</b>	<b>982,617</b>	<b>(706,675)</b>	<b>1,236,799</b>	<b>(827,498)</b>
Cash, beginning of period	634,119	1,897,780	379,937	2,018,603
<b>Cash, end of period</b>	<b>1,616,736</b>	<b>1,191,105</b>	<b>1,616,736</b>	<b>1,191,105</b>

Supplemental information, note 12

See accompanying notes to the unaudited interim consolidated financial statements.

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# **Pelangio Exploration Inc.**

## **(A Development Stage Company)**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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#### **1. Nature of operations and going concern**

Pelangio Exploration Inc. (the "Company" or "Pelangio") (A Development Stage Company) was incorporated on February 27, 2008 under the Alberta Business Corporations Act. The principal business of the Company is the acquisition, exploration and development of mineral property interests. Pelangio is a development stage company, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

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 amounts shown for mineral properties and related deferred exploration costs is dependant upon a discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material writedowns of the carrying value of mineral properties and deferred exploration costs. Most of the Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, expropriation and currency exchange fluctuations and restrictions.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior claims and agreements and non-compliance with regulatory requirements.

The Company's ability to continue as a going concern is dependent on the Company being able to satisfy its liabilities as they become due, the Company being able to obtain the necessary financing to complete the development of its mineral properties, the attainment of profitable mining operations, and, or the receipt of proceeds from the disposition of its mineral property. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the carrying values and classification of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its liabilities in anything other than the ordinary course of operations. Such adjustments could be material.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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**2. Basis of presentation**

The Company's 2009 consolidated balance sheet includes the net assets that were transferred from PDX Resources Inc. ("PDX") on September 6, 2008 pursuant to a corporate restructuring transaction (the "Plan of Arrangement"). The 2008 comparative balances are the values that would have been transferred pursuant to the Plan of Arrangement as of that date. The Company's statements of operations, comprehensive income, cash flows and retained earnings for the three and nine month periods ended September 30, 2008 are the result of a "carve-out" of an allocation of PDX's expenses for that period. The allocation of PDX's general and administrative expenses was calculated based on specific identification of certain expenditures and on a reasonable allocation of expenses that could not be specifically allocated.

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes included in the Company's annual report to shareholders for the year ended December 31, 2008. These unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements, but have been prepared by using the same accounting policies as included in note 3 of the Company's annual consolidated financial statements for the year ended December 31, 2008, except as described in note 3 below.

**3. Accounting policies**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2009 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2009.

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by Canadian GAAP for annual financial statements. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**3. Accounting policies (continued)**

*Flow-through Financing*

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mineral properties.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under flow-through subscription agreements.

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

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which establishes 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 EIC should be applied to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at and for the periods ended September 30, 2009.

*Mining Exploration Costs*

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2009.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**3. Accounting policies (continued)**

*Future accounting pronouncements*

In January 2009, the CICA issued Handbook Sections 1582 - Business Combinations ("Section 1582"), 1601- Consolidated Financial Statements ("Section 1601") and 1602 - Non-controlling Interests ("Section 1602") which replace CICA Handbook Section 1581 - Business Combinations and 1600 - Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards ("IFRS"). Sections 1601 and 1602 establish standards for preparation of consolidated financial statements and the accounting for non-controlling interests in financial statements that are equivalent to the standards under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 and 1602 are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Earlier adoption of these sections is permitted. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

*International Financial Reporting Standards "IFRS"*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its financial statements.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**4. Capital management**

The capital structure of the Company as at September 30, 2009 consists of equity attributable to common shareholders comprised of share capital, warrants and contributed surplus.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**5. Financial risk factors**

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

**Credit risk**

The Company's credit risk is primarily attributable to term deposits and receivables. The Company has no significant concentration of credit risk arising from operations. Term deposits have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2009, the Company had a cash balance of \$1,616,736 (December 31, 2008 - \$379,937) to settle current liabilities of \$100,668 (December 31, 2008 - \$508,281). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**Market risk**

**Interest rate risk**

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**Sensitivity analysis**

The Company has designated its cash and loan receivable as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable, which are classified as loans and receivables, are measured at amortized cost. Marketable securities are classified as available for sale, measured at quoted market value with changes in market value being recorded to other comprehensive income. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**5. Financial risk factors (continued)**

As at September 30, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

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

Sensitivity to a plus or minus 10% change in the quoted market value of marketable securities would affect comprehensive income (loss) by plus or minus \$137,063.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a producing entity.

**Fair value of financial instruments**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable, loan receivable and accounts payable and accrued liabilities on the consolidated balance sheet approximate fair market value because of the limited term of these instruments. As at September 30, 2009 the Company's marketable securities are recorded at their quoted market value.

**Market risk**

**Commodity price risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to fluctuations in the market price of certain minerals.

**Foreign exchange risk**

The Company is subject to foreign exchange risk as some of its operating and investing activities are transacted in currencies other than the Canadian dollar, including the US dollar and the Ghanaian cedi. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2009

**5. Financial risk factors (continued)**

**Market risk**

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its large holdings in marketable securities (note 6). Securities classified as available for sale are valued at market and as such, changes in market value affect comprehensive income as they occur.

**6. Marketable securities**

	2009			2008		
As at September 30...	Carrying Value	Market Value		Carrying Value	Market Value	
As at December 31...			Shares			
	Shares	\$	\$	Shares	\$	
Detour Gold Corporation						
	<b>103,600</b>	<b>1,370,628</b>	<b>1,370,628</b>	<b>334,900</b>	<b>2,415,952</b>	
				<b>2,415,952</b>	<b>2,415,952</b>	

The balances of accumulated other comprehensive income at September 30, 2009 and December 31, 2008 consists of the unrealized gains on the Company's interest in Detour Gold Corporation.

**7. Equipment**

	2009		2008	
As at September 30...	Cost	Accumulated Amortization	Cost	Accumulated Amortization
As at December 31...				
	\$	\$	\$	\$
Computer hardware	28,790	19,219	24,844	14,903
Computer software	2,956	1,591	966	483
Furniture and equipment	95,147	34,917	91,331	24,621
Vehicles	76,965	33,540	44,060	25,709
	<b>203,858</b>	<b>89,267</b>	<b>161,201</b>	<b>65,716</b>
Net book value		<b>114,591</b>		<b>95,485</b>

**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2009

**8. Mineral properties and deferred exploration costs**

Transactions for the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

<b>2009</b>	Opening \$	Acquisitions \$	Exploration \$	Write-down \$	Closing \$
<b>Canada</b>					
Birch Lake	42,133	-	37,223	-	79,356
Black Township	257,312	-	7,523	-	264,835
Seeley Lake	361,284	-	17,553	-	378,837
STAZ	258,416	-	-	-	258,416
Page Lake	112,520	30,191	55,608	-	198,319
Other	163,461	41,000	13,421	(12,000)	205,882
	1,195,126	71,191	131,328	(12,000)	1,385,645
<b>Ghana, Africa</b>					
Obuasi	19,440,684	-	907,900	-	20,348,584
	<b>20,635,810</b>	<b>71,191</b>	<b>1,039,228</b>	<b>(12,000)</b>	<b>21,734,229</b>

<b>2008</b>	Opening \$	Acquisitions \$	Exploration \$	Disposal \$	Closing \$
<b>Canada</b>					
Birch Lake	42,133	-	-	-	42,133
Black Township	83,652	670	172,990	-	257,312
Seeley Lake	21,058	-	340,226	-	361,284
STAZ	258,416	-	-	-	258,416
Page Lake	-	23,760	88,760	-	112,520
Other	100,086	48,000	15,375	-	163,461
	505,345	72,430	617,351	-	1,195,126
<b>Ghana, Africa</b>					
Obuasi	9,472,127	6,984,372	2,984,185	-	19,440,684
	<b>9,977,472</b>	<b>7,056,802</b>	<b>3,601,536</b>	<b>-</b>	<b>20,635,810</b>

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**8. Mineral properties and deferred exploration costs (continued)**

**Birch Lake**

Birch Lake consists of a 100% interest in 28 unpatented mining claims in Keigat Lake and Casummit Lake Townships, Ontario. The property is subject to net smelter return royalties of 2%.

**Black Township**

Black Township consists of a 100% interest in 2 patented and 2 unpatented mining claims in Black Township, Ontario. There are no underlying royalties pertaining to this property.

**Seeley Lake**

Seeley Lake consists of a 100% interest in 19 unpatented mining claims in the Thunder Bay Mining Division, Ontario. There are no underlying royalties pertaining to this property.

**STAZ**

STAZ consists of a 10% interest in 6 unpatented mining claims in Marriott and Stoughton Townships, Ontario. There are no underlying royalties pertaining to this property.

**Page Lake**

Page Lake consists of an option to acquire a 100% interest in 18 unpatented claims in the Page Lake Area in the Thunder Bay Mining Division, Ontario. The option agreement was amended during the period ended September 30, 2009. Pursuant to the amended agreement, the Company is required to spend \$450,000 on the property, pay the optionors a total of \$120,000 (paid \$12,000 during the period ended September 30, 2009) and issue 464,976 common shares (issued 64,968 common shares of the Company during the period ended September 30, 2009 valued at \$18,191 based on the quoted market value of the common shares) by May 2012 in order to obtain a 100% interest in the property. There are no underlying royalties pertaining to this property.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**8. Mineral properties and deferred exploration costs (continued)**

**Obuasi, Ghana, Africa**

Pursuant to a letter agreement dated September 23, 2005, as amended by an amending letter agreement dated November 18, 2005, and replaced by option agreements dated May 3, 2006, certain subsidiaries of PDX acquired options to acquire 100% (subject to a 2% royalty interest and a 10% interest held by the Ghanaian government) of a major land position adjacent to AngloGold Ashanti's Obuasi gold mine in southwest Ghana, West Africa. The optioned property consisted of the Kyereboso #2, Kyereboso #3, Meduma and New Edubiase concessions, which were acquired from three private Ghanaian corporations. The Kyereboso #2, Kyereboso #3 and Meduma concessions are referred to as the Obuasi Property. PDX paid \$25,000 to enter into the initial letter agreement and made an additional payment of US\$300,000 (\$347,796) as an advance payment on future option payments. In order to obtain a 100% interest in the concessions, PDX was required pursuant to the option agreements to pay a total of US\$3,800,000 and issue a total of 16,000,000 common shares at specified dates ending five years after the effective date of the option agreements.

The cash payment and share issuance required to maintain the option on the New Edubiase concession were not made in 2007, following a decision not to continue exploration efforts on this ground. The carrying value of this concession (\$1,126,959) has been written off.

On March 3, 2008, PDX made the third payment totaling US\$150,000 (\$150,371) and issued 1,500,000 common shares of PDX (estimated value of \$6,834,000) to the vendors of the Obuasi Property and pursuant to the terms of the option agreements acquired a 51% interest in the Obuasi Property. The third payment was made early pursuant to amendments to the option agreements (the "Option Amendments") in respect of the Obuasi Property which PDX negotiated with such vendors.

The common shares of Pelangio Mines (B) Inc., the former subsidiary of PDX that is the indirect holder of the interests in the Obuasi Property, were transferred to the Company on September 6, 2008 pursuant to the terms and conditions of the Plan of Arrangement (see note 2) and the Company assumed all of PDX's rights and obligations under the relevant option agreements at that time.

The Option Amendments provide that upon the completion of the Plan of Arrangement the common shares to be issued and cash to be paid to acquire the remaining 49% of the Obuasi Property would be common shares and cash of the Company, rather than PDX. Subsequent to the end of the period, the Company made the first payments, (totaling in the aggregate US\$750,000 and 6,000,000 common shares of Pelangio) to acquire the remaining 49%. The remainder of the payments required to acquire the remaining 49% of the Obuasi Property are as follows:

- pay US\$750,000 by the fourth anniversary of the effective date (June 19, 2010); and
- pay US\$750,000 by the fifth anniversary of the effective date (June 19, 2011).

**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2009

**9. Capital stock**

**(a) Share capital**

**Authorized:**

Unlimited common shares

**Common shares issued:**

	For the nine months ended September 30....		For the year ended December 31	
	Shares	\$	Shares	\$
Beginning of period	73,887,372	18,511,438	-	-
Issued on Plan of Arrangement ( <i>note 2</i> )	-	-	73,762,372	18,496,438
Flow-through shares	1,100,000	110,000	-	-
Options exercised	65,000	15,700	125,000	15,000
Shares issued, net of issue costs	10,914,968	1,062,781	-	-
Warrants exercised	1,400,000	309,935	-	-
Warrant valuation	-	(232,000)	-	-
<b>End of period</b>	<b>87,367,340</b>	<b>19,777,854</b>	<b>73,887,372</b>	<b>18,511,438</b>

Shares were issued during the period for the following consideration:

	For the nine months ended September 30....		For the year ended December 31	
	Shares	\$	Shares	\$
Cash*	13,415,000	1,480,225	125,000	15,000
Properties, <i>note 8</i>	64,968	18,191	-	-
	<b>13,479,968</b>	<b>1,498,416</b>	<b>125,000</b>	<b>15,000</b>

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**9. Capital stock (continued)**

\* Included in shares issued for cash in 2009 are 1,100,000 flow-through shares at \$0.10 per share for gross proceeds of \$110,000 and 10,850,000 units at \$0.10 per share for gross proceeds of \$1,085,000. Each unit is comprised of one common share and one warrant entitling the holder thereof to purchase one common share of the Company at a price of \$0.20 per common share prior to the earlier of (i) the 30th day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$0.40 for a period of twenty (20) consecutive trading days, and (ii) February 27, 2011.

The fair value of the warrants was estimated at \$232,000 on the date of the grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.15% and an expected life of two years.

**(b) Stock options**

The Company has a stock option plan to assist the Company in attracting, retaining and motivating directors, key officers, employees and consultants of the Company and to closely align the personal interests of such parties with those of the shareholders by providing them with the opportunity, through options, to acquire common shares of the Company. The maximum number of shares reserved for issuance under the stock option plan is 6,500,000. Stock options granted under the stock option plan vest in four equal installments, being at the date of grant, and at the end of each six-month period ended thereafter. As of September 30, 2009, the Company has 4,170,000 options outstanding as follows:

Date Granted	Options Granted	Options Exercisable	Weighted Average	
			Exercise Price \$	Expiry Date
September 6, 2008	5,000	5,000	0.32	December 31, 2009
September 6, 2008	100,000	100,000	0.15	December 11, 2011
September 6, 2008	662,500	662,500	0.15	March 29, 2012
September 6, 2008	80,000	80,000	0.19	June 25, 2012
September 6, 2008	1,097,500	1,097,500	0.32	December 21, 2012
September 6, 2008	75,000	75,000	0.39	January 14, 2013
September 6, 2008	25,000	25,000	0.54	February 1, 2013
January 21, 2009	2,125,000	1,062,500	0.10	January 21, 2014
	<b>4,170,000</b>	<b>3,107,500</b>	<b>0.177</b>	

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**9. Capital stock (continued)**

Transactions during the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

	<b>2009</b>		<b>2008</b>	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Beginning of period	2,122,500	0.254	-	-
Granted	2,125,000	0.100	2,247,500	0.245
Exercised	(65,000)	(0.182)	(125,000)	(0.100)
Expired	(12,500)	(0.126)	-	-
<b>End of period</b>	<b>4,170,000</b>	<b>0.177</b>	<b>2,122,500</b>	<b>0.254</b>

The value of stock options granted during 2009 has been estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0%; risk-free interest rate: 2.03%; expected volatility: 77%; and an expected life of 5 years. The value attributable to the options that were granted during 2009 was \$42,500 and the vested portion was \$33,489. The weighted average grant date fair value of options granted during 2009 was \$0.02.

Stock options were granted during 2008 pursuant to the Plan of Arrangement described in note 2. The value has been estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0%; risk-free interest rate: 2.87%; expected volatility: 100%; and an expected life of 0.125 to 4.4 years. The value attributable to the options that were granted during 2008 was \$128,450. The weighted average grant date fair value of options granted during 2008 was \$0.06 .

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**9. Capital stock (continued)**

**(c) Contributed surplus**

Transactions during the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

	<b>2009</b>	<b>2008</b>
	\$	\$
Beginning of period	275,950	14,030,841
Fair value of options granted and/or vested to directors, officers and employees	33,489	-
Reallocation of contributed surplus to share capital upon Plan of Arrangement	-	(13,880,841)
Issuance of stock options on spin out	-	128,450
Fair value of stock options exercised by directors, officers and employees	(3,900)	(2,500)
<b>End of period</b>	<b>305,539</b>	<b>275,950</b>

**(d) Warrants**

As at September 30, 2009, the following warrants were outstanding and exercisable:

	Number of warrants	Exercise price	Estimated Grant Date Fair Value
Issued *	10,850,000	\$0.20	232,000
Exercised	(1,400,000)	\$0.20	(29,935)
<b>Balance, September 30, 2009</b>	<b>9,450,000</b>	<b>\$0.20</b>	<b>202,065</b>

\* - See Note 9(a) above.

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**10. Related party information**

The following transactions were entered into with related parties during the period:

For the nine months ended September 30	2009	2008
	\$	\$
<hr/>		
With a corporation controlled by the President of the Company:		
Rent	25,200	3,824
<hr/>		
With a partnership in which an officer of the Company is a partner:		
Legal fees	-	37,731
<hr/>		
With a partnership in which an officer of the Company is a partner:		
Accounting services	86,616	18,459
<hr/>		

Accounts payable and accrued liabilities as at September 30, 2009 include amounts owing to the above noted related parties and certain directors and officers in the amount of \$36,634 (December 31, 2008 - \$nil). These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

These transactions with related parties were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Subsequent to the Plan of Arrangement (see note 2), PDX had all directors in common with the Company. PDX then merged with another company which has three directors in common with the Company.

The advances from PDX bore interest at prime and were unsecured with no fixed terms of repayment. During the nine month period ended September 30, 2009, the Company repaid advances of \$177,803 to PDX.

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**11. Commitments**

The Company is committed to spending \$110,000 on exploration costs during 2009 as part of the flow-through funding agreement completed during the period ended September 30, 2009. The Company has fulfilled this obligation by September 30, 2009.

The Company is party to employment agreements with its employees. These contracts contain clauses requiring additional payments to be made upon the occurrence of certain events such as change of control. The additional commitments total approximately \$1,300,000. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in the financial statements.

**12. Supplemental information**

	For the three months ended September 30... <b>2009</b>	<b>2008</b>		
			<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Interest paid	-	-	5,250	-
Shares issued for mineral properties ( <i>note 8</i> )	-	-	18,191	6,857,760
Change in accounts payable attributable to additions to mineral properties and deferred exploration cost	(121,279)	(468,587)	(172,277)	(49,676)

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**13. Income taxes**

Provisions for income taxes

Major items causing the Company's income tax rate to differ from the combined Canadian Federal and Provincial statutory income tax rate of approximately 33% (2008 - 33.5%) approximate the following:

For the nine months ended September 30...	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Income (loss) before income taxes</b>	<b>692,167</b>	<b>(1,114,397)</b>
Expected income tax (benefit) based on statutory rates	228,000	(373,000)
Tax deferred portion of gain on disposal of mineral properties	(484,000)	-
Stock-based compensation	11,000	54,000
Rate change	41,000	42,000
Share issue costs	(13,000)	-
Other	49,000	26,000
Change in valuation allowance	84,000	-
<b>Future income tax (benefit)</b>	<b>(84,000)</b>	<b>(251,000)</b>

**14. Segmented information**

The Company operates in one industry, that being exploration and development of mineral properties. Geographic breakdown of equipment is as follows:

Canada	\$59,336	(December 31, 2008 - \$30,676)
Ghana, Africa	\$55,255	(December 31, 2008 - \$64,809)

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**Pelangio Exploration Inc.**  
**(A Development Stage Company)**

**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**15. Subsequent events**

**(a) Private Placement**

On October 13, 2009, the Company completed a private placement (the "October Private Placement") for aggregate gross proceeds of \$7,000,030. Pursuant to the October Placement, the Company issued 18,919,000 units (the "October Units") at a price of \$0.37 per October Unit, with each October Unit comprising one common share and one half of one common share purchase warrant (each whole warrant, a "October Warrant"). Each October Warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.65 per common share prior to the earlier of (i) the 30th day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$1.30 for a period of ten (10) consecutive trading days, and (ii) April 13, 2011.

Pursuant to the terms of Private Placement, the Company paid the underwriters a fee equal to 7% of the gross proceeds of the October Placement and issued non-transferable compensation options (the "Compensation Options"), to purchase up to 945,950 units (the "Compensation Units") at a price of \$0.37 per Compensation Unit. Each Compensation Unit comprises one common share and one half of one common share purchase warrant ("Compensation Warrant"), each whole Compensation Warrant entitling the holder thereof to purchase one common shares of the company at a price of \$0.65 per common share. The Compensation Options and/or Compensation Warrants, as applicable, must be exercised prior to the earlier of (i) the 30th day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$1.30 for a period of ten (10) consecutive trading days subsequent to April 13, 2010, and (ii) April 13, 2011.

The fair value of the October Warrants was estimated at \$760,000 on the date of the grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; (risk free interest rate of 1.66%) and an expected life of 1.5 years.

The value of the Compensation Options granted has been estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0%; risk-free interest rate: 1.66%; expected volatility: 100%; and an expected life of 1.5 years. The value attributable to the Compensation Options that were granted was \$161,000 and the vested portion was \$161,000. The weighted average grant date fair value of Compensation Options granted was \$0.17.

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**Pelangio Exploration Inc.**  
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**Notes to the Unaudited Interim Consolidated Financial Statements**

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September 30, 2009

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**15. Subsequent events (continued)**

**(b) Marketable Securities Disposal**

Subsequent to September 30, 2009 the Company disposed of 3,600 shares of Detour Gold Corporation valued at \$10,356 for gross proceeds of \$46,519. The proceeds of this disposition will be used for working capital purposes.

**(c) Stock Option Exercise**

Subsequent to September 30, 2009 the Company issued 95,000 common shares for consideration of \$11,775 pursuant to the exercise of stock options.

**(d) Warrants Exercise**

Subsequent to September 30, 2009, the Company notified the holders of the Company's \$0.20 warrants issued in February 2009 ("February Warrants") that an "Acceleration Event" had occurred and that the expiration date in respect of all outstanding February Warrants had been accelerated in accordance with their terms. Holders of February Warrants will have until November 22, 2009 to exercise their February Warrants. Subsequent to September 30, 2009 the Company issued 6,150,000 common shares for consideration of \$1,230,000 pursuant to the exercise of warrants.

**(e) Obuasi Property, Ghana**

On October 30, 2009, the Company made the first payment totaling US\$750,000 and 6,000,000 common shares to the two vendors of the Obuasi Property to acquire the remaining 49% of the Obuasi Property.

**(f) Issuance of Options**

Subsequent to September 30, 2009, the Company issued an aggregate total of 2,050,000 options to purchase common shares of the Company to directors, officers, employees and consultants. Each option entitles the holder thereof to purchase one common share of the Company at a purchase price of \$0.58 prior to November 10, 2014.

## **PELANGIO EXPLORATION INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's discussion and analysis ("MD&A") of the consolidated operating results and financial condition of Pelangio Exploration Inc. (the "Company", "Pelangio", "us", "we", "our" or similar terms) for the nine months ended September 30, 2009 has been prepared based on information available to Pelangio as of November 17, 2009, and should be read in conjunction with the interim consolidated financial statements and the related notes for the nine months ended September 30, 2009 and 2008, the audited consolidated financial statements and the related notes for the years ended December 31, 2008 and December 31, 2007 and the MD&A for the year ended December 31, 2008. The audited financial statements for the year ended December 31, 2007 are those for the Pelangio Exploration Business (as hereinafter defined). The consolidated financial statements and the related notes have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts referred to in this MD&A are expressed in Canadian dollars, unless noted otherwise.

Certain statements herein, including all statements that are not historical facts, contain forward-looking statements and forward-looking information within the meaning of applicable securities laws. Such forward-looking statements or information include but are not limited to statements or information with respect to:

- the exploration and development of our properties in Obuasi, Ghana (the "Ghana Properties") and Canada (the "Canadian Properties");
- our future business and strategies;
- requirements for additional capital and future financing;
- future price of gold; and
- estimated future working capital, funds available, and uses of funds, and future capital expenditures, exploration expenditures and other expense for specific operations.

Often, but not always, forward-looking statements or information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. With respect to forward-looking statements and information contained herein, we have made numerous assumptions including among other things, the price of gold. Although our management believes that the assumptions made and the expectations represented by such statement or information are reasonable, there can be no assurance that a forward-looking statement or information referenced herein will prove to be accurate. Forward-looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statement or information. Such risks, uncertainties and other factors include, among other things, the following:

- our ability to advance the Ghana Properties and the Canadian Properties;
- gold price volatility;
- speculative nature of gold exploration;
- inherent uncertainties in estimating mineral resources;
- regulatory restrictions; and
- defective title to mineral claims or property,

as well as those factors discussed under "Risk Factors" in our MD&A for the year ended December 31, 2008.

Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. Also, many of the factors are beyond the control of Pelangio. Forward-looking statements and forward-looking information are based upon management's beliefs, estimates and opinions at the time they are made. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements or information. Accordingly, readers should not place undue reliance on forward-looking statements or information. We undertake no obligation to reissue or update any forward-looking statements or information as a result of new information or events after the date hereof except as may be required by law. All forward-looking statements and information herein are qualified by this cautionary statement.

Disclosure of a scientific or technical nature regarding the Ghana Properties was prepared by or under the supervision of Chris Pegg, P. Geo., a qualified person within the meaning of National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). Disclosure of a scientific or technical nature regarding the Canadian Properties was prepared by or under the supervision of Warren Bates, P. Geo., a qualified person within the meaning of NI 43-101.

## **1. CORPORATE OVERVIEW**

Pelangio is a Canadian junior gold exploration company active in two of the top-ranked mining jurisdictions in the world, Canada and Ghana. Pelangio focuses on the acquisition and exploration of under-valued or early stage exploration prospects located in world-class gold belts, and aims to make discoveries that will significantly increase shareholder value.

We entered into an arrangement agreement on March 17, 2008, as amended and restated on May 20, 2008 and June 19, 2008 (the "Arrangement Agreement"), with Pelangio Mines Inc. ("Mines"), pursuant to which Mines agreed, subject to the approval of its shareholders, to transfer all of its assets, other than 19 million common shares ("Detour Shares") of Detour Gold Corporation ("Detour") and \$500,000 (collectively, the "Pelangio Exploration Business"), to us (the "Arrangement"). The Arrangement was approved by the shareholders of Mines on April 22, 2008 and was effected on September 6, 2008 (the "Effective Date"). The property transferred to Pelangio included Mines' interests in the Ghana Properties and the Canadian Properties, one million Detour Shares and approximately \$1.1 million. In connection with the Arrangement, Mines changed its name to "PDX Resources Inc." ("PDX Resources").

On the Effective Date, each shareholder of Mines received one common share of Pelangio and one common share of PDX Resources for each common share of Mines held prior to the Effective Date. Subsequently, PDX Resources amalgamated with a subsidiary of Detour and the amalgamated corporation was dissolved. Shareholders of PDX Resources received Detour Shares in connection with that amalgamation.

All references to Mines herein mean Mines as it was prior to the Effective Date. The consolidated financial and other information of the Company issued subsequent to the Effective Date may not be comparable with the consolidated financial information of Mines relating to the Pelangio Exploration Business. The Pelangio Exploration Business did not operate as a stand-alone entity and there is no assurance that had it done so, the results would have been the same. Furthermore, such results may not be comparable to our results due to differences in our corporate and financial structure from that of Mines. Accordingly, the discussion and analysis of our financial condition and results of operations and those related to the Pelangio Exploration Business, including any comparisons, should be reviewed with caution.

Pelangio is a reporting issuer in Ontario, Alberta, British Columbia and Nova Scotia and our common shares commenced trading on the TSX Venture Exchange ("TSX-V") on September 10, 2008 under the symbol PX.

## **2. OPERATING AND FINANCIAL STRATEGIES**

Our strategy is to seek partners for, or to sell an interest in, promising exploration properties that are reaching the late-exploration or development stage while maintaining upside exposure to resource expansion and potential new discoveries. We model this strategy on the January 2007 transaction in which Mines sold the Detour Lake Property for an equity interest in Detour, thus retaining upside exposure to the Detour Lake Project through the late-stage exploration phase.

Additionally, as of November 17, 2009 we hold 100,000 Detour Shares for investment and working capital purposes. During the third quarter of 2009, we sold 150,000 Detour Shares at an average price of \$11.35 per Detour Share for net proceeds after transaction expenses of \$1,692,708. Subsequent to the period end, the Company disposed of 3,600 shares of Detour at an average price of \$13.00 for net proceeds of \$46,519.20.

We acquired a total of one million Detour Shares from PDX Resources on the Effective Date. Pursuant to the provisions of Section 85 of the *Income Tax Act* (Canada), we and PDX Resources jointly elected to have this transaction occur at the fair market value of \$11.90 per Detour Share. Accordingly, disposals of Detour Shares at prices below \$11.90 per share will not give rise to any corporate income tax liability. In addition, we realized capital losses for income tax purposes (currently totaling \$5,182,951) as a result of previous disposals of Detour Shares, which may be used to offset any capital gains realized in the future.

We will review our alternatives in respect of the remainder of our holding of Detour Shares in the future as investment conditions warrant, and may from time to time sell some of such holding into the market to raise funds for exploration, property acquisitions and general corporate purposes.

## **3. PROPERTY DESCRIPTION AND PLANS**

### **Ghana Properties**

In November 2005, certain of Mines' then subsidiaries acquired options to acquire 100% (subject to a 2% royalty interest and a 10% interest held by the Ghanaian government) of a major land position adjacent to AngloGold Ashanti's Obuasi gold mine in southwest Ghana, West Africa. The optioned property consisted of the Kyereboso #2, Kyereboso #3, Meduma and New Edubiase (which was subsequently dropped, as described below) concessions, which were acquired from three private Ghanaian corporations. The Kyereboso #2, Kyereboso #3 and Meduma concessions are referred to as the Obuasi Property. The Obuasi Property covers approximately 290 square kilometres and is located within the prolific 300-kilometre long Ashanti Gold Belt. The option agreements governing the Obuasi Property are available under Pelangio's profile on [www.sedar.com](http://www.sedar.com).

In 2006, Mines made the first payment totaling US\$300,000 and 3,000,000 common shares of Mines to all three of the vendors and on June 19, 2007 made the second payments totaling US\$225,000 and 2,225,000 common shares of Mines to only two of the vendors. The cash payment and share issuance required to maintain the option on the New Edubiase concession were not made, following Mines' decision not to continue exploration efforts on this ground. During the third quarter of 2007, Mines received notice that New Edubiase Goldfields Limited (the vendor of the New Edubiase property) is expecting payment. Pelangio does not expect to make such payment.

On March 3, 2008, Mines made the third payment totaling US\$150,000 and 1,500,000 common shares to the two remaining vendors of the Obuasi Property and acquired a 51% interest in the Obuasi Property. The third payment was made early pursuant to amendments to the option agreements (the "Option Amendments") in respect of the Obuasi Property which Mines negotiated with such vendors. The Option Amendments additionally provided that the common shares to be issued and cash to be paid to acquire the remaining 49% of the Obuasi Property (totaling US\$2.25 million and 6,000,000 common shares) would be common shares of Pelangio, rather than Mines. The original due date of the first payments in respect of the options to acquire the remaining 49% of the Obuasi Property was June 19, 2009. During the second quarter of 2009, we negotiated an extension from the vendor in respect of our options on the Kyereboso #2 and #3 concessions, which provided that we could make the first payments (totaling in the aggregate US\$600,000 and 4.8 million common shares of Pelangio) to acquire the remaining 49% of those concessions on or before December 19, 2009. During the third quarter, we negotiated a similar extension from the vendor of the Meduma concession, whereby we could make the first payment (totaling US\$150,000 and 1.2 million

common shares of Pelangio) to acquire the remaining 49% of that concession on or before December 19, 2009. Subsequent to the period end, we made the foregoing first payments and share issuances to the vendors of the Obuasi Property, totaling in the aggregate US\$750,000 and 6,000,000 common shares. Pursuant to the terms of the option agreements, as amended, in respect of the Obuasi Property, we will be required to make a further two payments of US\$750,000 each on or before June 19, 2010 and June 19, 2011, respectively, following which we will hold a 100% interest in the Obuasi Property (subject to a 10% free carried interest granted to the government of Ghana when a project proceeds to the exploitation phase, as stipulated in Clause 43, The Minerals and Mining Act 703 of 2006).

The common shares of Pelangio Mines (B) Inc., the former subsidiary of Mines that is the indirect holder of the interests in the Obuasi Property, were transferred to Pelangio on the Effective Date pursuant to the terms and conditions of the Arrangement.

### ***Exploration Activities***

As described above, Mines transferred the Pelangio Exploration Business to Pelangio on the Effective Date. All work conducted on the Company's Ghana Properties and Canadian Properties prior to the Effective Date was conducted by Mines, while Pelangio conducted all work on the Ghana Properties and Canadian Properties subsequent to the Effective Date.

### **Obuasi Property**

#### *Surveying and Prospecting Programs*

The setting of gold mineralization on the Obuasi Property, as illustrated by our previous drilling at Anyinabrim, occurs in the margins of mafic volcanic units that are identical to the main source of ore at the adjoining Obuasi Mine. Our geological mapping program during the first nine months of 2009 traced these ore-hosting rock types from our property boundary adjacent to the Obuasi Mine throughout the Anyinabrim area. Prospecting has discovered several new gold showings in the Anyinabrim area, which we refer to as the Tikal, Boundary 09-09, Bura SE and Bura Village occurrences. The extension of our mobile metal ion (MMI) surveying in the Anyinabrim and Old Akrofuom areas may serve to trace gold mineralization adjacent to these new gold showings.

Detailed geological mapping and prospecting programs continued on the Obuasi Property during the third quarter in nine target areas in the Anyinabrim (Main Mine Trend), Dinkyie (Gyabunsu Trend) and Brofoyedru (Central Trend) areas. Prospecting programs in these areas collected 673 rock grab samples for gold analysis. Additionally, 22.25 kilometres of grid lines were cut during the third quarter on new exploration areas at VTEM North and Mount Kate SW, both of which are in Anyinabrim. Exploration work included:

- Five trenches totaling approximately 222.2 lineal metres completed and sampled.
- 1,454.7 metres of soil augering in 262 holes at Anyinabrim.
- Five shallow prospect pits dug and sampled in the Dinkyie area.
- VLF-EM surveying on the VTEM North grid was completed for 6.0 line-kilometres.
- 1,102 MMI soil samples were collected and dispatched for analysis from three grid areas at VTEM North and Mount Kate SW at the Anyinabrim and Old Akrofuom auger grids

#### *VTEM Airborne Geophysical Survey*

Pelangio's primary exploration focus has consistently been the estimated 10-kilometre portion of the Main Obuasi Trend extending onto our property nearest the Obuasi Mine, which may hold the best exploration potential. The 2007 versatile time electromagnetic ("VTEM") airborne geophysical survey conducted by Mines enabled the Company to identify further potential targets on this trend. The analysis of the 2007 VTEM survey, combined with

MMI surveying conducted on the trend, confirms the presence on our concessions of conductors that are also seen in the Obuasi Mine. The VTEM analysis identified two, high priority, large single peak response targets, indicating the potential for thick near-vertical mineral bodies consistent with the ore bodies currently being mined at the Obuasi Mine. These anomalies, both in excess of 2.5 kilometres in length along strike, are located in Anyinabrim, particularly centred on the Mount Kate target.

The results and interpretation of the 2007 VTEM survey, which covered some 30% of the surface area of the project, suggested that the remainder of the project should be flown in a similar manner. During the second quarter, we completed a 1,926 line kilometre VTEM survey and received the results of the survey during the third quarter. The 2007 and 2009 surveys confirm that the Obuasi Main Mine Trend traverses a minimum of approximately 15 kilometres of the Obuasi Property from the southwest to the northeast. The 2009 VTEM survey and regional magnetics also indicate a large granitic intrusion on the Meduma concession portion of the Obuasi Property. The Company has not yet been determined whether this granitic intrusion pre-dates or post-dates gold mineralization in the region, which determination could increase the known extent of the Trend through the Obuasi Property

Pelangio has also been working throughout the summer with SRK Consulting (Canada) Inc. and Condor Consulting Inc. on a detailed structural analysis of the geophysical surveying conducted to date. The resulting interpretation accords closely with the results of the Company's prospecting and geochemical surveying and defines numerous priority drill targets on the Obuasi Main Mine Trend, as well as elsewhere on the Obuasi Property.

#### *Fourth Quarter 2009 Outlook*

Pelangio expects to conduct the following exploration programs on the Obuasi Property during the fourth quarter of 2009:

- continue prospecting and mapping 12 target areas, eight along the Main Obuasi Trend;
- retain SRK Consulting Inc. for further structural analyses of the Obuasi Property; and
- commence a proposed first phase 7,500 metre diamond drilling program, which will be the basis for a second phase 20,000 metre diamond drilling program to be conducted during 2010.

#### **Canadian Properties**

The Canadian Properties comprise the Seeley Lake and Page Lake Properties, the Moshkinabi Property, the Birch Lake Property, the Poirier Gold Property and the Black Property, all of which are located in Ontario, Canada.

##### *Birch Lake Property*

We own 100% of the Birch Lake Property, which comprises 28 contiguous unpatented mining claims (1,120 acres) located in the Keigat Lake area, approximately 120 kilometres northeast of Red Lake, Ontario. The property is subject to an underlying agreement whereby Goldcorp retains a 2% NSR on all of the claims. There are currently no obligations to Goldcorp other than payment of the royalty on production.

The Birch Lake Property was explored by Trade Winds Ventures Inc. ("Trade Winds") during 2004 and 2005 under the terms of an option agreement between Trade Winds and Mines. Trade Winds' drilling programs returned a number of high-grade intercepts, which we intend to follow-up during the fourth quarter of 2009. The best assay results included: 115.89 g/t gold over 2.90 metres (estimated true width 1.86 metres) from 239.35 to 242.10 metres (TWBL-096); and 21.22 g/t gold over 2.35 metres (estimated true width 1.51 metres) and 229.96 g/t gold over 2.45 metres (estimated true width 1.58 metres) between 300 and 360 metres (TWBL-097). Refer to the Q3 2008 Management's Discussion and Analysis of Trade Winds dated October 29, 2008.

During the third quarter, we conducted reconnaissance work on the property, including the location of historical drill collars and grid lines and cataloguing drill core that had been stored on the island. This work was conducted to support a potential drill program on the property during early 2010.

### *Seeley Lake and Page Lake Properties*

We own 100% of the Seeley Lake Property, which comprises 19 contiguous unpatented mining claims (760 acres) located within the Seeley Lake and Page Lake areas, approximately 14 kilometres northeast of Marathon, Ontario. There are no underlying royalties pertaining to this property.

Mines entered into an option agreement on May 8, 2008, which we assumed on the Effective Date and amended on May 7, 2009, in respect of the Page Lake Property that entitles us to acquire a 100% interest in the property. The property comprises 18 claims, 215 units or 3,440 hectares, and is located in the Page Lake Area in the Thunder Bay Mining Division, Ontario.

Under the terms of the option agreement, as amended, we may acquire a 100% interest by spending \$536,000 on the property, making cash payments totaling \$120,000 and issuing a total of 470,976 common shares to the vendors, with such payments to be made on specified dates within four years after May 8, 2008. Mines made the first payment of 6,000 common shares of Mines to the vendors under the option agreement and spent \$86,000 on the property prior to the Effective Date. We made the second payment, totaling \$12,000 and 64,968 Common Shares, during the second quarter of 2009 and have the option to make the remainder of the payments and expenditures.

The Page Lake property is host to a number of untested gold showings (Page Lake and Khuner showings) immediately north of the Seeley Lake Property. As well as gold showings, the project hosts several newly discovered polymetallic base metal occurrences, with zinc grades from grab samples ranging from 4% to 11%. Several molybdenum occurrences also exist.

During the second quarter of 2009, we collected 852 soil samples over a 21.6 line kilometre grid cut during 2008 on the Page Lake property for a soil sampling program using INAA (Instrumental Neutron Activation Analysis). In addition, 82 samples were collected on the Page Lake property for precious metal and whole rock analysis during mapping and prospecting. The assay results (received during the third quarter) revealed four weak gold anomalies to the east of Page Lake, the largest being 400 metres in strike length. The whole rock samples did not return any significant gold values.

### *Moshkinabi Property*

We entered into an option agreement on September 15, 2008 with certain optionors to acquire a 100% interest in two claim blocks near Manitouwadge, Ontario. The claim blocks were (i) the Moshkinabi property, comprising 14 claims, 110 units, 1,760 hectares, located in the Herbert and Roberta Townships of the Thunder Bay Mining Division, Ontario (the "Moshkinabi Property"), and (ii) the Fairies Lake and Rawluk properties, comprising 10 claims, 83 units and 1,328 hectares, located in Cecil Township of the Thunder Bay Mining Division, Ontario (the "Fairies Properties"). We did not conduct any exploration activities on either of the properties during the third quarter of 2009. During the third quarter of 2009, we decided to drop our option in respect of the Fairies Properties and returned the property to the optionors.

The Moshkinabi Property is host to a polymetallic Ni, Cu, and Pt/Pd rich massive sulphide unit hosted in a metamorphosed suite of volcanics overlain by a sulphide rich ultramafic unit that can be traced along a strike of two kilometres. Grab samples taken by the Company returned values of up to 3.9 g/t combined Pt/Pd accompanied by up to 1% Cu and 0.2% Ni. All information at this stage indicates good potential for both bulk tonnage Cu-PGM and massive sulphide Ni-Cu type deposits.

Under the terms of the option agreement in respect of the Moshkinabi Property, the Company may acquire a 100% interest in the property by making payments totaling \$250,000 to the vendors, with such payments to be made on specified dates within four years after the execution of the option agreement. The vendors have been paid \$75,000 to date (with a further \$12,000 having been paid to them pursuant to the option in respect of the Fairies Properties).

### *Poirier Gold Property*

We own 100% of the Poirier Gold Property, subject to a 2% NSR payable to the vendors of the property. The property comprises two claims totaling 160 acres and is located 22 kilometres west of Timmins. The claims are

contiguous with Lake Shore Gold Corp.'s Timmins Gold Project (which holds a 1.2 million ounce gold reserve at a grade of 10.4 g/t) and the Thunder Creek Joint Venture (the "Thunder Creek JV") between Lake Shore Gold Corporation (60%) and West Timmins Mining Inc. (40%). Lake Shore Gold and West Timmins Mining reported a drill result of 83.40 metres grading 12.75 g/t gold in hole TC-09-68b on the Thunder Creek JV during the second quarter of 2009 (refer to the Lake Shore Gold press release dated June 24, 2009 and "A Technical Review and Report on the 'Thunder Creek Property'" dated July 29, 2009 by David H. R. Powers, H.B.Sc., P. Geo).

The Poirier Gold Property is located in a mafic volcanic unit approximately a kilometre to the west of the mafic, ultramafic and sedimentary contact, which dips steeply westwards towards our claim block. During the third quarter, we conducted prospecting and MMI surveying on the property, the assay results of which are pending. Quartz veining and sulfide occurrences were noted on the property during this program and have been sampled and sent for analysis and assaying. Depending on the assay results and the ongoing exploration of the Thunder Creek JV property by Lake Shore Gold following its merger with West Timmins Mining, we may conduct further exploration and drilling on the property during early 2010.

### ***Other Canadian Properties and Royalties***

We currently own a number of other Canadian properties, as shown in the following chart:

	<b>Lartic Gold</b>	<b>Thunder Gold</b>	<b>Black Township</b>
Location	4 kilometres west northwest of Malartic, Quebec	20 kilometres west of Timmins, Ontario	100 kilometres east of Timmins, Ontario
Size	9 claims (900 acres)	3 claims (120 acres) <sup>(1)</sup>	2 claims (480 acres)
Pelangio Interest	100%	100%	100%
Underlying Royalty	None	2% to vendors and \$1000 per year advance royalty	None

**Notes:**

(1) Pelangio is in the process of converting these claims into leases.

We also own the following royalties and carried interest in a number of Canadian properties as shown in the table below.

Matheson West and East	1% NSR can be purchased by Matamec Explorations Inc. for \$1,000,000 and 100,000 common shares of Matamec
Simon Copper Project	1% NSR on future production
Stoughton Staz	10% participating interest carried to bankable feasibility
Mord	1.5% NSR (provided Pelangio exercises right to buy back 1% for 100,000 shares of Pelangio)
Ross/Guibord	1% NSR

## **4. LIQUIDITY AND CAPITAL RESOURCES**

Our activities consist of the exploration and evaluation of our various properties, a process that is ongoing, and is dependent on many factors, some of which are beyond our control. We maintain a policy of reviewing our working capital requirements on a monthly basis and are mindful of our property and administrative commitments.

On February 27, 2009, we issued 11,950,000 shares for net proceeds of \$1,154,590 pursuant to a private placement (the "February Placement"). The February Placement comprised 1,100,000 flow-through shares at \$0.10 per share and 10,850,000 units at \$0.10 per unit ("February Units"). Each February Unit comprised one common share and a warrant (a "February Warrant") to acquire one common share at \$0.20 per common share prior to the earlier of (i) the 30<sup>th</sup> day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$0.40 for a period of 20 consecutive trading days, and (ii) February 27, 2011.

During the nine months ended September 30, 2009, we issued 65,000 shares for proceeds of \$11,800 as a result of the exercise of stock options. Additionally, during the period, we issued 1,400,000 shares for proceeds of \$280,000 as a result of the exercise of February Warrants.

No other common shares were issued for cash during the period.

Our expenditures on exploration activities during the period totaled \$1,039,228, of which \$907,900 was spent on our Obuasi Property.

In Ghana, the significant components of costs were as follows:

Assaying	\$ 241,543
Geologists and contract workers	\$ 140,332
Geophysics and geochemistry	\$ 363,487
Drilling	\$ 51,100
Prospecting and trenching	\$ 46,173

The balance was incurred on vehicles, meals, housing and related support costs.

During the period, \$55,608 was spent on Page Lake, \$17,553 was spent on Seeley Lake, \$37,223 was spent on Birch Lake and \$7,523 was spent on Black Township.

Mineral property costs of \$71,191 were incurred in the period to maintain the Company's property interests.

General and administrative cash costs for the first nine months of 2009 totaled \$1,116,343.

As at September 30, 2009, Pelangio had working capital of \$2,934,333 compared to \$2,762,554 at December 31, 2008. Working capital has increased due to the funds raised by the issuance of common shares, funds realized on the disposal of Detour shares and the increase in value of the Detour Shares held by the Company.

## 5. FINANCIAL RESULTS OF OPERATIONS

### Summary of Quarterly Results

	<b>3rd Quarter 2009 \$</b>	<b>2nd Quarter 2009 \$</b>	<b>1st Quarter 2009 \$</b>
Total Revenue	23	45	473
Net income (loss)	826,035	(149,850)	32,982
Income (loss) per share			
- Basic	0.01	0.00	0.00
- Diluted	0.01	0.00	0.00
Total assets	24,836,821	24,805,054	25,246,662

	<b>4th Quarter 2008 \$</b>	<b>3rd Quarter 2008 \$</b>	<b>2<sup>nd</sup> Quarter 2008 \$</b>	<b>1<sup>st</sup> Quarter 2008 \$</b>
Total Revenue	6,252	3,883	966	2,716
Net income (loss)	935,826	(311,970)	(406,417)	(145,010)
Income (loss) per share				
- Basic	0.01	n/a	n/a	n/a
- Diluted	0.01	n/a	n/a	n/a
Total assets	24,002,130	32,942,871	45,803,880	36,646,073

We do not own any interests in producing mineral properties or have any other revenue generating activities. The only source of revenue is from interest earned on cash and term deposits. We spend money on evaluating, acquiring and exploring mineral properties and on general and administrative costs associated with maintaining a public company.

## **Results of Operations**

### **3<sup>rd</sup> Quarter 2009 Compared to 3<sup>rd</sup> Quarter 2008**

The Company's net income for the quarter ended September 30, 2009 was \$826,035 compared to a net loss of \$311,970 for the same period in 2008. This decrease is primarily attributable to the gain of \$1,261,196 on the sale of shares of Detour realized in 2009.

General and administrative expenses for the period ended September 30, 2009 totaled \$406,184, an increase of \$39,388 from the 2008 expenditures of \$366,796. The value attributed to stock-based compensation for employee stock options vested in the period ended September 30, 2009 was \$5,701, compared to \$30,420 in the period ended September 30, 2008. This decrease is reflective of the higher trading value of the common shares during the period ended September 30, 2008.

Salaries and employee benefits increased by \$131,237 to \$183,707 in the period ended September 30, 2009 from \$52,470 in the period ended September 30, 2008. Insurance increased by \$7,633 to \$11,957 in the period ended September 30, 2009 from \$4,324 in the period ended September 30, 2008. Rent increased by \$16,680 to \$19,634 in the period ended September 30, 2009 from \$2,954 in the period ended September 30, 2008. Transfer agent and filing fees increased by \$8,456 to \$16,653 in the period ended September 30, 2009 from \$8,197 in the period ended September 30, 2008. These increases resulted from the Company being a stand-alone entity in 2009, whereas during the period ended September 30, 2008 these costs were jointly borne with PDX Resources up to the Effective Date.

Professional fees decreased by \$18,690 to \$65,538 in the period ended September 30, 2009 from \$84,228 in the period ended September 30, 2008. Consulting services decreased by \$9,385 to \$8,890 in the period ended September 30, 2009 from \$18,275 in the period ended September 30, 2008. These decreases resulted from the higher level of activity in 2008 related to the Arrangement

No interest on short term debt was paid in 2009, as all debt was retired in the fourth quarter of 2008.

A foreign exchange loss of \$8,745 was realized as a result of movements of the Canadian dollar against the American dollar and the American dollar against the Ghanaian cedi during the period ended September 30, 2009. During the period ended September 30, 2008 a loss of \$18,275 was realized. The reduction in this loss resulted from fluctuations in the rates of movements of the currencies in which the Company transacts business.

During the third quarter of 2009, the Company issued 1,000,000 common shares for proceeds of \$200,000 pursuant to the exercise of February Warrants.

## **6. CRITICAL ACCOUNTING ESTIMATES**

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by Pelangio include factors affecting the valuations of stock based compensation, and the valuation of tax accounts. Pelangio regularly reviews its estimates and assumptions. Actual results could differ from these estimates and these differences could be material.

## **7. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **Flow-through Financing**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under flow-through subscription agreements.

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

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which establishes 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 EIC should be applied to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at and for the period ended September 30, 2009.

### **Mining Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2009.

### **Future Accounting Changes**

#### *International Financial Reporting Standards ("IFRS")*

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publically accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal controls over financial reporting and disclosure controls and procedures.

The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase ("Phase 1") involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing an implementation plan and communication strategy. The detailed assessment phase ("Phase 2") will result in the accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase ("Phase 3") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("Phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

The Company has established a project management team consisting of both internal and external consultants, and

has commenced the mobilization of organizational support for the conversion plan. The Company is in the process of completing the identification of major areas affected by the changeover to IFRS and is developing an implementation plan. Once the assessment has been completed, the Company will provide details to stakeholders and proceed with the selection of the IFRS accounting policies. The Company will continue to monitor changes to IFRS throughout the duration of the implementation process and assess their impact on the organization and its reporting.

## **8. COMMITMENTS AND CONTINGENCIES**

The Company is committed to spending \$110,000 on exploration costs during 2009 as part of the flow-through portion of the February Placement. The Company has spent \$131,326 on Canadian exploration during the first nine months of 2009.

The Company is party to employment agreements with its employees. These contracts contain clauses requiring additional payments to be made upon the occurrence of certain events such as a change of control. The additional commitments total approximately \$1.3 million. As the likelihood of such events taking place is not determinable, the contingent payments have not been reflected in the financial statements.

## **9. OFF BALANCE SHEET ARRANGEMENTS**

Pelangio has not entered into any off balance sheet arrangements.

## **10. RELATED PARTY TRANSACTIONS**

	Nine months ended September 30,	
	2009	2008
	\$	\$
With a corporation controlled by the President of the Company		
Rent	25,200	3,824
Expenditures with a Partnership in which an Officer of the Company is a Partner		
Legal Fees	-	37,731
With a partnership in which an officer of the Company is a partner		
Accounting services	86,616	18,459

These transactions with related parties were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **11. FINANCIAL INSTRUMENTS**

### **Financial risk factors**

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

#### **Credit risk**

The Company's credit risk is primarily attributable to term deposits and receivables. The Company has no significant concentration of credit risk arising from operations. Term deposits have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote.

### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2009, the Company had a cash balance of \$1,616,736 (December 31, 2008 - \$379,937) to settle current liabilities of \$100,668 (December 31, 2008 - \$508,281). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

### **Interest rate risk**

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

### **Sensitivity analysis**

The Company has designated its cash and loan receivable as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable, which are classified as loans and receivables, are measured at amortized cost. Marketable securities are classified as available for sale, measured at quoted market value with changes in market value being recorded to other comprehensive income. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at September 30, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same. Based on management's knowledge and experience of the financial markets, management believes the following movements are "reasonably possible" over a three month period:

- Sensitivity to a plus or minus 10% change in the quoted market value of marketable securities would affect comprehensive income (loss) by plus or minus \$137,063.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a producing entity.

### **Fair value of financial instruments**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. 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 for cash, amounts receivable, loan receivable, marketable securities and accounts payable and accrued liabilities on the balance sheet approximate fair market value because of the limited term of these instruments. As at September 30, 2009, the Company's marketable securities are recorded at their quoted market value.

### **Commodity price risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to fluctuations in the market price of certain minerals.

### **Foreign exchange risk**

The Company is subject to foreign exchange risk as some of its operating and investing activities are transacted in currencies other than the Canadian dollar including the US dollar and the Ghanaian cedi. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

## Market risk

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its large holdings in marketable securities. Securities classified as available for sale are valued at market and as such, changes in market value affect comprehensive income as they occur.

## **12. OUTSTANDING SHARE DATA**

As of November 17, 2009, Pelangio has issued one class of common shares and a total of 118,531,338 shares are issued and outstanding. Stock options outstanding as of November 17, 2009 totaled 4,075,000 and are exercisable for common shares at prices ranging from \$0.10 per share to \$0.54 per share. As of November 17, 2009, the February Warrants and the October Warrants (as defined under *Subsequent Events*) were outstanding in the following amounts and on the following terms:

Number	Exercise Price	Expiry	Accelerator Price	Acceleration Event <sup>1</sup>
3,300,000	\$0.20	November 22, 2009 <sup>2</sup>	\$0.40	Volume weighted average price of the common shares has been equal to or greater than \$0.40 for a period of twenty consecutive trading days.
9,459,500	\$0.65	April 13, 2011	\$1.30	Volume weighted average price of \$1.30 or more for a period of at least ten consecutive trading days from that date which is six months following October 13, 2009

- 1 Upon the occurrence of an acceleration event, warrant holders will have thirty days from the date of receiving notice of such occurrence to exercise their warrants.
- 2 On October 13, 2009, the Company notified February Warrant holders that an "Acceleration Event" had occurred and that the expiration date in respect of all outstanding February Warrants had been accelerated to November 22, 2009 in accordance with their terms and the notice provisions thereof.

Additionally, the Company issued 945,950 broker compensation options at an exercise price of \$0.37 in connection with the October Placement (as defined under *Subsequent Events*). Such compensation options will expire on April 13, 2011, subject to acceleration on the same terms as the October Warrants (as defined under *Subsequent Events*).

## **13. SUBSEQUENT EVENTS**

### *(a) Bought Deal Private Placement*

On October 13, 2009, the Company completed a brokered bought deal private placement (the "October Placement") for aggregate gross proceeds of \$7,000,030 with a syndicate of underwriters (the "Underwriters"). Pursuant to the October Placement, the Company issued 18,919,000 units (the "October Units") at a price of \$0.37 per October Unit, with each October Unit comprising one common share and one half of one common share purchase warrant (each whole warrant, an "October Warrant"). Each October Warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.65 per common share prior to the earlier of (i) the 30th day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$1.30 for a period of ten (10) consecutive trading days, and (ii) April 13, 2011.

Pursuant to the terms of the October Placement, the Company paid the Underwriters a fee equal to 7% of the gross proceeds of the October Placement and issued non-transferable compensation options (the "Compensation Options") to purchase up to 945,950 units (the "Compensation Units") at a price of \$0.37 per Compensation Unit. Each Compensation Unit comprises one common share and one half of one common share purchase warrant ("Compensation Warrant"), each whole Compensation Warrant entitling the holder thereof to purchase one common

share of the Company at a price of \$0.65 per common share. The Compensation Options and/or Compensation Warrants, as applicable, must be exercised prior to the earlier of (i) the 30th day after receiving notice from the Company that the volume weighted average price of the common shares has been equal to or greater than \$1.30 for a period of ten (10) consecutive trading days subsequent to April 13, 2010, and (ii) April 13, 2011.

*(b) First Payment and Share Issuance under Second Option on Obuasi Property*

Subsequent to the period end, the Company made the first payments and share issuances in respect of its exercise of the second option to obtain the 49% of the Obuasi Property that it does not currently own. In connection with such payments and share issuances, the Company paid an aggregate total of US\$750,000 and issued an aggregate total of 6,000,000 common shares to the vendors of the Obuasi Property. The common shares issued to the vendors are subject to customary securities legislation hold periods and will also be subject to the applicable escrow arrangements between the Company and the vendors.

*(c) Exercise of Warrants*

Subsequent to the period end, the Company notified February Warrant holders that an “Acceleration Event” had occurred and that the expiration date in respect of all outstanding February Warrants had been accelerated in accordance with their terms. Holders of February Warrants will have until November 22, 2009 to exercise their February Warrants. Subsequent to the period end and up to November 17, 2009, the Company issued 6,150,000 common shares for proceeds of \$1,230,000 pursuant to the exercise of 6,150,000 February Warrants.

*(d) Exercise of Options*

Subsequent to the period end, the Company issued 95,000 common shares for proceeds of \$11,775 pursuant to the exercise of 95,000 stock options.

*(e) Disposal of Marketable Securities*

Subsequent to the period end, the Company disposed of 3,600 shares of Detour at an average price of \$13.00 for net proceeds of \$46,519.20. The proceeds of this disposition will be used for working capital purposes.

*(f) Issuance of Options*

Subsequent to the period end, the Company issued an aggregate total of 2,050,000 options to purchase common shares of the Company to directors, officers, employees and consultants. Each option entitles the holder thereof to purchase one common share of the Company at a purchase price of \$0.58 prior to November 10, 2014.

**14. ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The balance of Mining Properties and Deferred Exploration Expenditures increased to \$21,687,229 on September 30, 2009 (December 31, 2008 – \$20,635,810), details of which are provided in the consolidated financial statements.

**15. ADDITIONAL INFORMATION**

Additional information about the Company is available at [www.sedar.com](http://www.sedar.com) under the name Pelangio Exploration Inc.