



**TRELAWNEY**

Mining and Exploration Inc.

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

**Unaudited Consolidated  
Financial Statements  
For the three and nine month periods ended  
September 30, 2010**

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

<i>As at</i>	<b>September 30, 2010</b>	December 31, 2009
<b>Assets</b>	<b>(Unaudited)</b>	Audited
<b>Current Assets</b>		
Cash and cash equivalents <i>(Note 12)</i>	<b>\$ 7,189,392</b>	\$ 10,593,347
Marketable securities <i>(Note 5)</i>	<b>74,500</b>	32,500
HST recoverable and other receivables	<b>677,690</b>	76,854
Prepaid expenses	<b>185,740</b>	8,937
	<b>8,127,322</b>	10,711,638
<b>Restricted cash</b> <i>(Note 12)</i>	<b>586,693</b>	47,350
<b>Capital assets</b> <i>(Note 3)</i>	<b>4,332,235</b>	-
<b>Mineral properties and deferred costs</b> <i>(Note 4)</i>	<b>25,840,928</b>	10,821,403
	<b>\$ 38,887,178</b>	\$ 21,580,391
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities <i>(Note 7)</i>	<b>\$ 1,598,345</b>	\$ 794,941
Property option payable <i>(Note 4.d)</i>	<b>1,000,000</b>	-
	<b>2,598,345</b>	794,941
<b>Property option payable</b> <i>(Note 4.d)</i>	<b>-</b>	1,000,000
<b>Capital lease obligations</b> <i>(Note 8)</i>	<b>65,672</b>	-
<b>Provision for mine closure</b> <i>(Note 9)</i>	<b>435,921</b>	-
	<b>3,099,938</b>	1,794,941
<b>Shareholders' equity</b>		
<b>Capital stock</b> <i>(Note 10)</i>	<b>37,570,599</b>	19,222,646
<b>Contributed surplus</b> <i>(Note 11)</i>	<b>8,555,565</b>	5,983,119
<b>Deficit</b>	<b>(10,338,924)</b>	(5,420,315)
	<b>35,787,240</b>	19,785,450
	<b>\$ 38,887,178</b>	\$ 21,580,391

Nature of Operations/Going Concern (Note 1)  
Commitments and Contractual Obligations (Note 15)  
Subsequent event (Note 16)

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

Period ended September 30,	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Administrative Expenses</b>				
Management and consulting fees <i>(Note 7)</i>	\$ 103,113	\$ 209,729	\$ 442,261	\$ 294,729
Promotion and travel	175,309	52,576	385,900	82,416
Office and general	365,676	55,116	675,267	131,363
Salaries	314,027	40,221	497,578	40,221
Professional fees <i>(Note 7)</i>	97,013	35,872	267,371	66,551
Stock-based compensation <i>(Note 10)</i>	167,700	819,000	3,286,700	819,000
Shareholders' information	168,467	44,359	354,403	76,605
Amortization	5,129	-	5,129	-
	<b>1,396,434</b>	1,256,873	<b>5,914,609</b>	1,510,885
Unrealized gain on marketable securities <i>(Note 5)</i>	<b>(15,750)</b>	-	<b>(8,000)</b>	-
<b>Net loss before income taxes</b>	<b>1,380,684</b>	1,256,873	<b>5,906,609</b>	1,510,885
Future income tax recovery <i>(Note 14)</i>	-	-	<b>(988,000)</b>	-
<b>Net loss and comprehensive loss</b>	<b>1,380,684</b>	1,256,873	<b>4,918,609</b>	1,510,885
Deficit at beginning of period	<b>8,958,240</b>	3,032,976	<b>5,420,315</b>	2,778,964
<b>Deficit, end of period</b>	<b>\$ 10,338,924</b>	\$ 4,289,849	<b>\$ 10,338,924</b>	\$ 4,289,849
Net loss per share – basic and fully diluted	<b>1.6¢</b>	4.5¢	<b>6.1¢</b>	7.0¢
Weighted average # of shares outstanding – basic and fully diluted	<b>87,770,149</b>	27,592,159	<b>80,205,630</b>	21,554,813

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

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

Period ended September 30,	Three months 2010	Three months 2009	Nine months 2010	Nine months 30, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Operations</b>				
Net loss	\$ (1,380,684)	\$ (1,256,783)	\$ (4,918,609)	\$ (1,510,885)
Adjustments to reconcile net loss to cash flow from operating activities:				
Stock-based compensation	167,700	819,000	3,286,700	819,000
Future income tax recovery	-	-	(988,000)	-
Unrealized gain on marketable securities	(15,750)	-	(8,000)	-
Amortization	5,129	-	5,129	-
Net change in non-cash operating working capital items:				
Prepaid expenses	(83,070)	(19,406)	(176,803)	(10,874)
GST recoverable and other receivables	(359,748)	(20,287)	(600,836)	(7,264)
Accounts payable and accruals	717,829	40,351	759,837	(45,883)
	<b>(948,594)</b>	<b>(437,215)</b>	<b>(2,640,582)</b>	<b>(755,906)</b>
<b>Financing</b>				
Issuance of common shares	1,871,236	2,978,552	16,823,699	3,220,364
	<b>1,871,236</b>	<b>2,978,552</b>	<b>16,823,699</b>	<b>3,220,364</b>
<b>Investing</b>				
Additions to capital assets	(175,082)	-	(4,254,463)	-
Additions to mineral properties and deferred costs	(5,935,856)	(563,461)	(12,793,266)	(640,817)
Restricted cash	(539,343)	-	(539,343)	-
	<b>(6,650,281)</b>	<b>(563,461)</b>	<b>(17,587,072)</b>	<b>(640,817)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,727,639)</b>	1,977,876	<b>(3,403,955)</b>	1,823,641
Cash and cash equivalents, beginning of period	12,917,031	217,909	10,593,347	372,144
<b>Cash and cash equivalents, end of period</b>	<b>\$ 7,189,392</b>	\$ 2,195,785	<b>\$ 7,189,392</b>	\$ 2,195,785
Cash and cash equivalents are comprised of:				
Cash	2,261,911	2,181,485	2,261,911	2,181,485
Short-term deposits	4,927,481	14,300	4,927,481	14,300
	<b>\$ 7,189,392</b>	\$ 2,195,785	<b>\$ 7,189,392</b>	\$ 2,195,785

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

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

**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

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**General**

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

**1. Nature of Operations**

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

**Going concern**

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

At September 30, 2010, the Company had working capital of \$5,528,977 (December 31, 2009 - \$9,916,697), had not yet achieved profitable operations, has accumulated losses of \$10,338,924 (December 31, 2009 - \$5,420,315) and expects to incur further losses in the development of its business, all of which casts doubt about the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

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

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

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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

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## **2. Summary of Significant Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual financial statements. Certain information and disclosures normally required to be included in notes to the annual consolidated financial statements have been condensed or omitted.

In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Trelawney's financial position at September 30, 2010 and the results of its operations and cash flows for the three and nine month periods ended September 30, 2010 and 2009.

Certain prior period comparative figures have been reclassified to conform to the current period presentation.

### **Capital Assets**

Capital assets are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method at the following annual rates:

Buildings	10 years
Computer equipment	3 years
Furniture and fixtures	4 - 5 years
Mining equipment	8 -10 years
Various equipment	3 years
Vehicles	4 years

### **Future Accounting Pronouncements**

#### **Convergence with International Financial Reporting Standards**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### **Business combinations, financial statements & Non-controlling interests**

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

**Trelawney Mining and Exploration Inc.**  
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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

**3. Capital Assets**

As at	September 30, 2010		December 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 1,524,457	\$ 99,334	\$ -	\$ -
Computer equipment	120,966	9,961	-	-
Furniture and fixtures	198,505	17,616	-	-
Mining equipment	2,039,073	85,922	-	-
Various Equipment	295,180	21,652	-	-
Vehicles	455,684	67,145	-	-
	<b>\$ 4,633,865</b>	<b>\$ 301,630</b>	<b>\$ -</b>	<b>\$ -</b>
Net book value	<b>\$ 4,332,235</b>		<b>\$ -</b>	

During the nine month period ended September 30, 2010, the Company capitalized amortization of \$296,501 (2009 - \$Nil) to mineral properties and deferred costs as substantially all of the equipment has been used in the exploration of the Company's properties.

**Trelawney Mining and Exploration Inc.**  
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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

**4. Mineral Properties and Deferred Costs**

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

	<b>30-Sep-10</b>			
	Opening Balance	Additions	Disposals	Net
	(\$)	(\$)	(\$)	(\$)
Chester 1	2,864,020	8,407,179	-	11,271,199
Dorset Au	2,922,351	762	-	2,923,113
Chester 2 - Young Shannon	2,694,744	1,542,086	-	4,236,830
Chester 3 - Jack Rabbit (Cote Lake)	1,132,931	4,537,188	-	5,670,119
Mishi	486,469	4,939	-	491,408
Massey	687,888	30,377	-	718,265
Hiawatha	18,000	288,000	-	306,000
Chesbar	15,000	-	-	15,000
Chester/Yeo	-	154,985	-	154,985
Benneweis	-	57,791	(34,000)	23,791
Other	-	30,218	-	30,218
	<b>10,821,403</b>	<b>15,053,525</b>	<b>(34,000)</b>	<b>25,840,928</b>

  

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

**4.a - Chester 1 Property**

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

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

- \$35,000 (paid) in cash;
- 4,000,000 (issued) common shares of the Company;
- 1,000,000 (issued) common purchase warrants of the Company exercisable into common shares of the Company for five years from the date of issuance at an exercise price of \$0.17;
- Within 12 months following the signing of the Option Agreement, the Company shall obtain the necessary work permits and commence a work program on the Property (completed);
- On or before the 18th month anniversary of obtaining the work permits, the Company shall have brought the Property into commercial production; and
- On or before the sixth month anniversary of achieving commercial production, the Company shall issue an additional 1,000,000 Common Shares to Treelawn.

**Trelawney Mining and Exploration Inc.**  
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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

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**4. Mineral Properties and Deferred Costs** (continued)

**4.a - Chester 1 Property** (continued)

After exercising the First Option, the Company can acquire an additional 10% interest in the Property (the "Second Option") by issuing an additional 1,000,000 Common Shares to Treelawn on the date which is the later of: Treelawn receiving \$2.5 million from its share of the net profits from commercial production from the Property and the Property achieving 12 months of continuous commercial production.

The Company can acquire an additional 10% interest in the Property on the date that is 12 months from the exercise of the Second Option by issuing an additional 1,000,000 Common Shares to Treelawn.

**4.b - Dorset Au Property**

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

**4.c - Chester 2 Property - Young Shannon Property**

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

**4.d - Chester 3 Property - Jack Rabbit Property**

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

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

- 3,000,000 (issued) common shares of the Company;
- on or before the end of every three month period following the signing of a definitive option agreement (the "Effective Date"), the Company shall pay Treelawn the amount of \$18,000 per quarter for a period of three years, for a total consideration of \$216,000 (paid \$54,000 as at September 30, 2010);
- on or before the Effective Date the Company shall pay Treelawn the amount of \$1,000,000 (paid);
- on or before the first anniversary of the Effective Date the Company shall pay Treelawn the amount of \$1,000,000; and
- on or before the end of the 18th month anniversary following the Effective Date, the Company shall have incurred \$500,000 (completed) in expenditures on the Property;
- on or before the end of the 18th month anniversary following the Effective Date, the Company shall issue an additional 4,000,000 Common Shares to Treelawn; and
- in the event the Company fails to exercise the First Option, the Company shall pay Treelawn the amount of \$1,000,000. The Company has accrued the \$1,000,000 and classified it as a current payable (December 31, 2009 - long term payable) as the payment is not required until 30 days after the first anniversary of the effective date, which would be due fiscal 2011, in the event that the Company does not exercise its First Option.

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

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(formerly Trelawney Resources Inc.)

**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

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**4. Mineral Properties and Deferred Costs** (continued)

**4.d - Chester 3 Property - Jack Rabbit Property ("Cote Lake")** (continued)

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

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

**4. e - Hiawatha Property**

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

**4. f - Mishi Property**

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

**4. g - Massey Property**

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

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

**4. h - Murgor Option – Mishibishu Lake Property**

On May 31, 2006, Trelawney entered into an option agreement to acquire up to 75% interest in the Murgor's Mishibishu Lake Property, which is comprised of 14 claims totaling 114 units.

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

**4. i – Chester Yeo Property (Chester 5)**

On June 2, 2010, Trelawney signed an agreement with Crown Minerals Inc. ("Crown") for Crown's Chester / Yeo property. Trelawney is purchasing an 80% interest for a one-time payment of \$120,000 (paid) and Crown will retain a 20% carried interest until the completion of a positive pre-feasibility study. The Chester/Yeo property is contiguous to and west of Trelawney's Chester Project. The property consists of three claims with 14 units located approximately 1 kilometre west of Trelawney's newly discovered Cote Lake deposit.

**4. j – Benneweis Property**

On June 2, 2010, Trelawney has granted Crown the option to earn a 50% interest on Trelawney's recently-staked Benneweis property in exchange for Crown issuing 1.6 million common shares of Crown and Crown spending \$2.5 million in exploration expenses over a five-year period. As of September 30, 2010, 400,000 shares have been received. The Benneweis property is located east of the Chester Project and consists of 20 claims with 257 units located in Benneweis, Groves, Neville and St. Louis townships.

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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

**4. Mineral Properties and Deferred Costs** (continued)

The following is a summary of the Company's cumulative outstanding mineral property commitments by property to acquire the maximum potential interests under its current property agreements:

	<b>Chester 1</b>	<b>Dorset Au</b>	<b>Chester 2</b>	<b>Chester 3</b>
Maximum interest	70%	70%	92.5%	92.5%
Cash payments	\$ -	\$ 100,000	\$ -	\$ 1,162,000 <sup>(1)</sup>
Shares to be issued	3,000,000	500,000	-	12,000,000
Exploration obligations	- obtain necessary work permits	- complete a feasibility study	-	-
	- achieve commercial production for 12 continuous months	-	-	-
Royalties	-	-	4% NSR	1.5% NSR

<sup>(1)</sup> \$1,000,000 has been accrued under property option payable as at September 30, 2010.

**5. Marketable Securities**

Marketable securities are comprised of 325,000 (December 31, 2009 – 325,000) shares of Citadel Gold Mines Inc and 400,000 (December 31, 2009 – Nil) shares of Crown Minerals Inc. As at September 30, 2010, these held-for-trading investments have been measured at their fair value of \$74,500 (December 31, 2009 – \$32,500). The impact to the consolidated financial statements of this revaluation to market value resulted in a gain of \$8,000 (2009 – (\$Nil)) as market values of these securities increased in the current period.

**6. Financial Risk Factors**

Fair Value of Financial Instruments

The Company has designated its cash and cash equivalents and marketable securities as held for trading, which are measured at fair value. Fair value of marketable securities is determined based on transaction value and is categorized as Level 1 measurement. GST recoverable and other receivables is classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Accounts payable and accrued liabilities and property option payable are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair value. Fair value of accounts payable and accrued liabilities and property option payable are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements.

As at September 30, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

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

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**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine Month Period Ended September 30, 2010**

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**6. Financial Risk Factors** (continued)

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

A) Credit Risk

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

B) Market Risk

i.) Interest Rate Risk

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

ii.) 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, 2010, the Company had current assets of \$8,127,322 (December 31, 2009 - \$10,711,638) and current liabilities of \$2,598,345 (December 31, 2009 - \$794,941). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms, except for the property option payable, which is due in January 2011. Current working capital of the Company is \$5,528,977 (December 31, 2009 - \$9,916,697).

iii.) Equity Price Risk

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

iv.) Commodity Price Risk

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

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**6. Financial Risk Factors** (continued)

**Sensitivity Analysis**

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

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a one year period:

- (i) Cash and cash equivalents include short-term money market mutual fund units that are subject to floating interest rates. As at September 30, 2010, if interest rates had fluctuate by 1% with all other variables held constant, the loss for the nine month period ended September 30, 2010 would be changed by \$58,000, as a result of a change in interest income from cash and cash equivalents.
- (ii) The Company's investments are subject to fair value fluctuations. As at September 30, 2010, if the fair value of investments had fluctuated by 10% with all other variables held constant, net loss for the nine month period ended September 30, 2010 would have changed by \$7,000.

**7. Related Party Transactions**

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

These expenditures are summarized as follows:

For the nine month period ended September 30,	2010	2009
Management and consulting fees	\$ 320,000	\$ 154,500
Professional fees	142,587	-
Deferred exploration expenditures	238,750	-

Included in accounts payable and accrued liabilities is \$56,600 (December 31, 2009 - \$80,587) in amounts due to related parties.

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**8. Capital Lease Obligations**

	September 30, 2010	December 31, 2009
Total minimum lease payments	\$ 104,266	\$ -
Less: amount representing interest	20,171	-
Capital lease obligation	84,095	-
Less: current portion	18,423	-
	<u>\$ 65,672</u>	<u>\$ -</u>

Future minimum lease payments by year, and in the aggregate, are as follows:

2010	6,894
2011	27,574
2012	27,574
2013	27,574
2014	14,649
<b>Totals</b>	<u><b>\$ 104,265</b></u>

Equipment under capital lease includes three vehicles. The capital leases are issued at a rate of interest of 3.84% and mature in June 2014. During the nine months ended September 30, 2010 \$676 (2009 - \$Nil) of interest from capital leases was charged to operations.

**9. Provision for mine closure**

The following table summarizes the changes in mine closure costs during the period:

	September 30, 2010	December 31, 2009
Opening Balance	\$ -	\$ -
Increase	435,921	-
<b>Ending Balance</b>	<u><b>\$ 435,921</b></u>	<u><b>\$ -</b></u>

As at September 30, 2010, management estimated that the total amount of the estimated cash flows required to settle the Company's assets retirement obligation for the Chester 1 property is \$528,055. It is expected that this amount will be incurred in three years. The credit adjusted, risk free interest rates used to discount estimated cash flows for liabilities incurred was 6.6% representing the Company's incremental borrowing rate.

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet or exceed regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties. The provision for reclamation is provided against the Chester 1 project and is based on the project plan approved by the Government of Ontario.

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**10. Capital Stock**

**Share Capital**

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

	No. of Shares	
Balance at December 31, 2008	89,752,688	\$ 6,212,174
Issuance of common shares for cash:		
Private placement FT units - \$0.20	11,115,000	2,223,000
Private placement Units - \$0.17	4,173,234	709,450
Private placement Units - \$0.11	2,000,000	220,000
Private placement FT units - \$0.60	4,605,000	2,763,000
Private placement Units - \$0.50	15,296,600	7,648,300
Issuance of shares for property	9,100,000	3,848,000
Issuance of shares for debt*	268,828	21,812
Consolidation 5:1	(71,822,159)	-
Finder's fee	60,000	6,600
Fair market value assigned to warrants	-	(3,208,000)
Costs of issuances		
Cash commissions paid	-	(1,006,090)
Finder's fee	-	(6,600)
Fair market value assigned to broker warrants	-	(462,000)
Future tax benefit on cost of issuance	-	253,000
Balance at December 31, 2009	64,549,191	\$ 19,222,646
<b>Issuance of common shares for cash:</b>		
<b>Private placement shares - \$1.05</b>	<b>14,238,095</b>	<b>14,950,000</b>
<b>Exercise of stock options</b>	<b>365,000</b>	<b>194,750</b>
<b>Exercise of purchase warrants</b>	<b>8,337,051</b>	<b>2,694,702</b>
<b>Issuance of shares for property</b>	<b>3,500,000</b>	<b>1,798,000</b>
<b>Fair value of contributed surplus transferred on exercise of options and warrants exercised</b>	<b>-</b>	<b>1,308,254</b>
<b>Future tax liability pursuant to flow through shares renunciation</b>	<b>-</b>	<b>(1,244,000)</b>
<b>Cost of issuance</b>		
<b>Cash commissions paid</b>	<b>-</b>	<b>(1,015,753)</b>
<b>Fair market value assigned to broker warrants</b>	<b>-</b>	<b>(594,000)</b>
<b>Future tax benefit on cost of issuance</b>	<b>-</b>	<b>256,000</b>
<b>Balance at September 30, 2010</b>	<b>90,989,337</b>	<b>37,570,599</b>

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

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**10. Capital Stock** (continued)

**Private Placements**

Details of private placements completed during the nine month period ended September 30, 2010, were as follows:

Date of issuance	March 30, 2010	Total
Number of shares issued	14,238,095	14,238,095
Price of issue	\$1.05	
Gross proceeds	\$14,950,000	\$14,950,000
Number of common share broker warrants	854,286	-
Exercise price per purchase warrant and broker warrant	\$1.05	
Expiry date of warrants	March 30, 2012	

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

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

**Stock Options**

Trelawney established a stock option to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. The stock option plan provides that the total number of shares which may be issued hereunder is limited to 10% (December 31, 2009 - 9%) of the aggregate number of shares outstanding. Under the terms of the plan, options vest immediately and expire on the fifth anniversary from the date of issue unless otherwise specified. As at September 30, 2010, the Company had 1,853,934 (December 31, 2009 – 2,509,427) options available for issuance under this plan.

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**10. Capital Stock** (continued)

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

	September 30, 2010		December 31, 2009	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at beginning of year/period	\$ 0.39	3,300,000	\$ 0.75	650,000
Transaction during the period/year:				
Granted	0.92	4,580,000	0.33	2,810,000
Exercised	0.53	(365,000)	-	-
Forfeited	0.52	(270,000)	0.94	(160,000)
Outstanding at end of period/year	0.71	7,245,000	0.39	3,300,000
Exercisable at end of period/year	\$ 0.55	7,245,000	\$ 0.39	3,229,333

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

The following table provides additional information about outstanding stock options at September 30, 2010:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Options Currently Exercisable	Weighted Average Exercise Price – Exercisable Options
\$0.26 - \$0.37	2,600,000	3.95	\$ 0.33	2,600,000	\$ 0.33
\$0.52 - \$0.75	2,745,000	4.30	\$ 0.73	2,745,000	\$ 0.73
\$1.00 - \$1.25	1,900,000	4.36	\$ 1.20	1,900,000	\$ 1.20
\$0.26 - \$1.25	7,245,000	4.19	\$ 0.71	7,245,000	\$ 0.71

**Stock-based Compensation**

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options issued during the nine month period ended September 30, 2010:

Grant date	Vesting of Options	Jan. 19, 2010	March 2, 2010	April 12, 2010	April 30, 2010	Sept. 24, 2010	Total
No. of options	-	2,525,000	275,000	1,530,000	50,000	200,000	4,580,000
Exercise price	-	\$ 0.75	\$ 0.53	\$ 1.25	\$ 1.10	\$ 1.00	
Expected life in years	-	5	5	5	5	5	
Volatility	-	104.86%	104.32%	109.85%	109.19%	108.90%	
Risk-free interest rate	-	2.60	2.53	3.06	2.99	2.11	
Dividend yield	-	-	-	-	-	-	
Vesting	25% per quarter	100%	100%	100%	100%	1/3 per quarter	
Fair value of options granted	-	\$1,466,000	\$112,000	\$1,469,000	\$ 43,000	\$ 154,000	\$3,244,000
Stock-based compensation expense	\$42,700	\$1,466,000	\$112,000	\$1,469,000	\$ 43,000	\$ 154,000	\$3,286,700

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**10. Capital Stock** (continued)

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

Grant date	August 27, 2009	September 22, 2009	Total
No. of options	910,000	1,900,000	2,810,000
Exercise price	\$ 0.26	\$ 0.37	
Expected life in years	5	5	
Volatility	105.32%	105.41%	
Risk-free interest rate	2.65%	2.57%	
Dividend yield	-	-	
Fair value of options granted	\$ 184,000	\$ 545,000	\$ 729,000
Stock-based compensation expense	\$ 184,000	\$ 502,300	\$ 686,300

The weighted average grant-date fair value of options granted during the period was \$0.71 (Year ended December 31, 2009 – \$0.26) per option issued.

**Warrants**

Month of Expiry	No. of Warrants	Exercise Price (\$)
December 2011	7,373,300	0.70
December 2011	975,178	0.50
March 2012	854,286	1.05
August 2014	1,000,000	0.17
	10,202,764	

The following table summarizes the assumptions used with the Black-Scholes valuation model during the nine month period ended September 30, 2010:

Grant date	March 30, 2010	Totals
No. of warrants	854,286	854,286
Exercise price	\$ 1.05	
Expected life in years	2	
Volatility	129.67%	
Risk-free interest rate	1.73%	
Dividend yield	-	
Fair value of warrants	\$ 594,000	\$ 594,000

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**10. Capital Stock** (continued)

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

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

**11. Contributed Surplus**

<i>As at</i>	September 30, 2010	December 31, 2009
Balance at beginning of period/year	\$ 5,983,119	\$ 1,465,819
Stock-based compensation expense	3,286,700	686,300
Fair market value of warrants issued	594,000	3,831,000
Fair market value transferred on warrants and options exercised	(1,308,254)	-
Balance at end of period/year	\$ 8,555,565	\$ 5,983,119

**12. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with the banks in general non-interest bearing accounts totalling \$2,261,911 (2009 - \$1,593,347) and interest-generating money-market accounts with no stipulated terms of maturity, of \$4,927,481 (2009- \$9,000,000).

Restricted cash balances consist of short-term cash on deposit with banks in interest-generating money-market accounts, of \$586,693 (2009 - \$35,053).

The following chart discloses the Company's cash and cash equivalents that are restricted as a result of cash held by its Canadian bank in interest bearing deposits securing letters of credit issued regarding the Chester project:

	September 30, 2010	December 31, 2009
	\$	\$
<b>General purpose</b>		
Cash	2,261,911	1,593,347
Cash equivalents	4,927,481	9,000,000
<b>Total cash and cash equivalents</b>	<b>\$ 7,189,392</b>	<b>\$ 10,593,347</b>
<b>Restricted</b>		
Cash equivalents (1)	586,693	47,350
<b>Total restricted cash</b>	<b>\$ 586,693</b>	<b>\$ 47,350</b>

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- (1) This cash is made up of \$505,612 restricted in concert with the Company's ARO obligations. It has issued a letter of credit in the amount of \$505,612 to the Ministry of Northern Development, Mines and Forestry in satisfaction of its requirements under the approved site development. This cash equivalent is restricted by a non-revocable letter of credit that can only be lifted by the Ministry of Northern Development, Mines and Forestry. The remaining \$81,081 is restricted in concert with the Company's credit cards.

### **13. Capital Management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2010. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, contributed surplus, and deficit, which as at September 30, 2010 totaled \$35,787,240 (December 31, 2009 - \$19,785,450).

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

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

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

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

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**13. Future Income Taxes**

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the nine month period ended September 30, 2010 and year ended December 31, 2009 is as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Loss before income taxes	<b>(4,918,609)</b>	(2,523,351)
Combined Statutory rate	<b>31.00%</b>	33.00%
Estimated recovery of income taxes	<b>(1,525,000)</b>	(833,000)
Permanent differences	<b>1,019,000</b>	311,000
Change in valuation allowance	<b>(181,000)</b>	512,000
Difference between current and future tax rates	<b>(301,000)</b>	128,000
Future income tax expense (recovery)	<b>(988,000)</b>	118,000

The Canadian statutory income tax rate of 31.0% (2009 - 33%) is comprised of the federal income tax rate at approximately 18% (2009 – 19%) and the provincial income tax rate of approximately 13.00% (2009 – 14.00%). The primary differences which give rise to the future income tax recoveries as at September 30, 2010 and December 31, 2009 are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
<b><i>Future income tax assets</i></b>		
Share issuance costs	<b>475,000</b>	219,000
Other	-	2,000
Capital Assets	<b>77,000</b>	-
Operating losses carried forward	<b>1,590,000</b>	654,000
	<b>2,142,000</b>	875,000
Less : valuation allowance	<b>(331,000)</b>	(512,000)
Net future tax assets	<b>1,811,000</b>	363,000
<b><i>Future tax liabilities</i></b>		
Deferred exploration expenses	<b>(1,811,000)</b>	(363,000)
Net future tax liabilities	<b>(1,811,000)</b>	(363,000)
Net future tax liability	<b>-</b>	-

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**14. *Commitments and Contractual Obligations***

As part of its 2009 flow-through funding, the Company is committed to spending \$Nil (December 31, 2009 - \$985,000) on Canadian exploration costs by December 31, 2010.

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

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

During the year, the Company entered into agreements with two officers of the Company that contain change of control and termination clauses pursuant to which the officers would be entitled to termination payments of up to an aggregate maximum of \$900,000 under certain circumstances.

**15. *Subsequent event***

On November 17, 2010, the Company reported that it has entered into a private placement financing agreement, on a bought-deal basis, with a syndicate of underwriters led by RBC Capital Markets and Jennings Capital Inc. Trelawney will issue an aggregate of 18,182,000 Common Shares at a price of \$2.20 per share and 6,000,000 flow-through common shares at a price of \$2.50 per flow-through share for gross proceeds of \$57,009,400 (the "Offering").

The net proceeds of the Offering will be used for further exploration and development of the Chester Property and for general working capital purposes. The net proceeds of the Flow-Through Common Shares will be used by the Company to incur Canadian exploration expenses ("Qualifying Expenditures") prior to December 31, 2011. The Company will renounce the Qualifying Expenditures to subscribers of the Flow-Through Shares for the fiscal year ended December 31, 2010.