TREVALI RESOURCES CORP.

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

June 30 2009

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June 30, 2009

INDEX	**Page**

Unaudited Consolidated Financial Statements

Consolidated Balance Sheets	1
Consolidated Statements of Operations and Deficit	2
Consolidated Statements of Cash Flows	3
Notes to the unaudited Consolidated Financial Statements	4-20

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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TREVALI RESOURCES CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

	June 30, 2009	December 31, 2008 (audited)
ASSETS		
Current		
Cash and cash equivalents	$ 100,427	$ 486,259
Accounts receivable	32,432	23,733
Prepaid expenses	13,610	19,557
	146,469	529,549
Property and equipment (Note 4)	376,782	173,597
Exploration advances	-	208,436
Mineral property interests (Note 5)	25,124,341	23,065,405
	$ 25,647,592	$ 23,976,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 1,536,256	$ 1,011,328
Due to related parties (Note 8)	1,264,466	1,284,170
	2,800,722	2,295,498
Shareholders' equity		
Capital stock (Note 6)	31,140,504	29,398,066
Share subscription receivable	-	(100,500)
Contributed surplus (Note 6)	5,421,215	5,206,716
Deficit	(13,714,849)	(12,822,793)
	22,846,870	21,681,489
	$ 25,647,592	$ 23,976,987

Nature and continuance of operations (Note 1)
Commitments (Note 5)
Subsequent events (Note 12)

On behalf of the Board:

"Anton Drescher" Director — Mr. Anton Drescher

"Charles Melbye" Director — Mr. Charles Melbye

The accompanying notes are an integral part of these consolidated financial statements.

TREVALI RESOURCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – Prepared by Management)

	Three months ending June 30		Six months ended June 30	
	2009	**2008**	**2009**	**2008**
Expenses				
Amortization	$ 6,673	$ 3,407	$ 13,796	$ 4,788
Consulting fees (note 8)	204,596	249,056	465,980	350,587
Investor relations	56,526	127,152	149,034	142,586
Interest expense (note 8)	35,870	-	35,870	-
Office and miscellaneous	47,911	72,349	114,415	113,167
Professional fees (note 8)	108,501	89,210	201,246	120,262
Property investigation	5,625	-	5,625	-
Regulatory	11,306	24,251	14,426	27,920
Travel and promotion	37,085	41,636	55,199	88,396
	(514,093)	(607,061)	(1,055,591)	(847,706)
Other items				
Gain (loss) on foreign exchange	211,636	(428,627)	163,535	57,804
Interest income	-	4,646	-	72,721
	211,636	(423,981)	163,535	130,525
Loss and comprehensive loss for the period	(302,457)	(1,031,042)	(892,056)	(717,181)
Deficit, beginning of period	(13,412,392)	(11,305,434)	(12,822,793)	(11,619,295)
Deficit, end of period	$ (13,714,849)	$ (12,336,476)	$ (13,714,849)	$ (12,336,476)
Basic and fully diluted loss per share	($0.01)	($0.03)	($0.03)	($0.02)
Weighted average number of shares outstanding	35,819,561	32,421,194	35,198,696	31,163,130

The accompanying notes are an integral part of these consolidated financial statements.

TREVALI RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Three months ended June 30		Six months ended June 30	
	2009	**2008**	**2009**	**2008**
Operating Activities				
Loss and comprehensive loss for the period	$ (302,457)	$ (1,031,042)	$ (892,056)	$ (717,181)
Add items not affecting cash				
Amortization	6,673	3,407	13,796	4,788
Stock- based compensation	58,275	177,394	213,537	177,394
Changes in non-cash items:				
Accounts receivable	(16,232)	(266,212)	(8,699)	(656,026)
Accounts payable and accrued liabilities	64,961	203,437	96,124	51,346
Due to/from related parties	(190,959)	(161,747)	140,615	(61,218)
Prepaid expenses	(5,025)	(48,326)	5,947	(48,326)
Cash Used in Operating Activities	(384,764)	(1,123,089)	(430,736)	(1,249,223)
Financing Activities				
Issuance of capital stock	1,743,400	2,771,250	1,843,900	2,771,250
Cash Provided by Financing Activities	1,743,400	2,771,250	1,843,900	2,771,250
Investing Activities				
Mineral property interests and advance	(1,364,914)	(3,254,925)	(1,582,015)	(6,426,478)
Purchase of equipment	(216,981)	(113,038)	(216,981)	(121,563)
Cash Used in Investing Activities	(1,581,895)	(3,367,963)	(1,798,996)	(6,548,041)
Decrease in cash and cash equivalents	(223,259)	(1,719,802)	(385,832)	(5,026,014)
Cash and cash equivalents, beginning of period	323,686	4,983,296	486,259	8,289,508
Cash and cash equivalents, end of period	$ 100,427	$ 3,263,494	$ 100,427	$ 3,263,494
Supplemental cash flow information				
Interest paid	$ -	$ -	$ -	$ -
Income taxes paid	$ -	$ -	$ -	$ -
Non-cash transactions				
Shares issued to acquire mineral properties	$ -	$ -	$ -	$ -
Shares issued as agent commission	$ -	$ -	$ -	$ -
Accounts payable included in resource property expenditures	$ 1,324,126	$ 516,190	$ 1,324,126	$ 516,190

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Trevali Resources Corp. (the "Company") is incorporated under the laws of British Columbia, Canada. In 2007, the Company changed its business and has since been engaged in the acquisition, exploration and development of mineral properties. The Company is an exploration stage company.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Several adverse conditions cast substantial doubt on the validity of this assumption. For the period ending June 30, 2009, the Company has incurred significant operating losses $892,056 (year ended December 31, 2008 - $1,203,498), is currently unable to self-finance operations, has a working capital deficiency of $2,654,253 (December 31, 2008 – working capital deficiency of $1,765,949), has a deficit at June 30, 2009 of $13,714,849 (December 31, 2008 - $12,822,793), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property interests.

The Company does not generate sufficient cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company, particularly in view of current market conditions. Although these consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's recoverability of assets, classification of assets and liabilities, and results of operations should the Company be unable to continue as a going concern.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral property interests. The recoverability of amounts shown for mineral properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. The carrying value of the Company's mineral property interests does not reflect current or future values.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of consolidation

These consolidated financial statements include the accounts of Trevali Resources Corp. and its wholly-owned integrated subsidiaries, Trevali Peru S.A.C. ("Trevali Peru"), Trevali Renewable Energy Inc. ("Trevali Renewable") and Companua Hidroelectrica Tingo S.A.C. All significant intercompany balances and transactions were eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of estimates include accruals of liabilities, rates of amortization, impairment and recoverability of mineral property interests, amounts of reclamation and environmental obligations, assumptions used to determine the fair value of stock-based compensation and determination of the valuation allowance for future income tax assets. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Foreign currency translation

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

i. Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

ii. Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

Cash and cash equivalents

Cash and cash equivalents are considered cash on deposit and guaranteed investment certificates ("GIC") that are readily convertible into known amounts of cash with maturities of three months or less from the date of acquisition.

Amortization

Amortization of property and equipment is recorded at the following annual rates:

Office equipment	-	10% declining balance basis
Computer equipment	-	25% to 30% declining balance basis
Leasehold improvements	-	straight-line over the lease term

Additions during the year are amortized at one-half the annual rates and none is taken during the year of disposal.

Mineral property interests and deferred exploration costs

The Company records its interests in mineral properties and deferred exploration costs initially at cost. All costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property upon commencement of production. Proceeds from mineral property interests sold will be credited against the cost of the property.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations, and exploration and development costs incurred. The recorded amount does not reflect present or future values as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production, or realize proceeds from disposition.

All deferred property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property interest exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the interest for an amount exceeding the deferred costs, provision is made for the impairment in value. From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

Revenue recognition

Interest income is recorded as earned at the effective rate of interest over the term to maturity.

Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that enactment or substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future income tax asset will be recovered, it provides a valuation allowance against the excess.

Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

Capital disclosures

In February 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital. The new section is effective for the Company for the year commencing January 1, 2008. Other than the additional disclosure in note 11, the adoption of this section has had no impact on the Company's consolidated financial statements.

Financial instruments and comprehensive income

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income or loss calculated in accordance with Canadian GAAP.

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's consolidated statements of operations equals comprehensive loss.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 3.

Going concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The new section is effective for the Company on January 1, 2008. As a result of this standard, additional disclosure regarding going concern has been included in note 1.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The effective date for the Company is for the year commencing January 1, 2011. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010 and earlier where applicable. 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.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". These sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after January 1, 2009. The Company has determined there is no significant impact of this new section on its consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, consolidated financial statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Non controlling interests

In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents as held for trading; accounts receivable as loans and receivables; and accounts payable and accrued liabilities, and amounts due to related parties as other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency. The Company has no asset backed securities.

The Company's concentration of credit risk and maximum exposure thereto is as follows relating to financial assets:

	June 30, 2009	December 31, 2008 (audited)
Cash	$ 100,427	$ 486,259
Accounts receivable	$ 32,432	$ 23,733
Share subscription receivable	$ -	$ 100,500

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (cont'd…)

(a) Credit risk (cont'd)

The Company's cash at June 30, 2009 consists of $48,388 in Canada and $52,039 in Peru. Concentration of credit risk exists with respect to the Company's Canadian cash and cash equivalents as all amounts are held at a single major Canadian financial institution. Credit risk with regard to cash held in Peru is mitigated as the amount held in Peru is only sufficient to cover short-term requirements. With respect to receivables at June 30, 2009, the Company is not exposed to significant credit risk as the majority are from governmental agencies or related parties.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and cash equivalents to meet the Company's business requirements; however, at June 30, 2009, the cash balance of $100,427 is insufficient to meet the needs for the coming year. Therefore, the Company will be required to raise additional capital or sell one or more mineral property interest in order to fund its operations in 2009. At June 30, 2009, the Company had accounts payable and accrued liabilities, and amounts due to related parties of $2,800,722 (2008 - $2,295,498), which are all payable within six months.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risk.

i. Interest rate risk

The Company's cash and cash equivalents consists primarily is the cash held in bank accounts. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of June 30, 2009. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. The Company's sensitivity analysis suggests that a 1% change in interest rates would not have a material effect on interest income.

ii. Foreign currency risk

The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in Peruvian soles. The Company has not entered into any foreign currency contracts to mitigate this risk, as it believes this risk is minimized by the minimal amount of cash held in Peru. The Company's sensitivity analysis suggests that a consistent 5% change in the absolute rate of exchange in Peruvian soles, the foreign currency for which the Company has monetary assets employed, would not have a material impact on these consolidated financial statements.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (cont'd…)

(c) Market risk (cont'd)

iii. Commodity price risk

The value of the Company's mineral property interests is related to the price of silver and zinc, and the outlook for these minerals. Silver and zinc prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, forward sales by producers and speculators, levels of worldwide production, and short-term changes in supply and demand because of speculative hedging.

iv. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk, foreign exchange risk or commodity price risk. The Company has no financial instruments exposed to such risk.

4. PROPERTY AND EQUIPMENT

	June 30, 2009			**December 31, 2008 (audited)**		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building	$ 216,982	$ -	$ 216,982	$ 31,234	$ 8,873	$ 22,361
Computer equipment	31,234	13,078	18,156	-	-	-
Office equipment	145,295	17,578	127,717	145,295	10,076	135,219
Leasehold improvements	17,061	3,134	13,927	17,061	1,044	16,017
	$ 410,572	$ 33,790	$ 376,782	$ 193,590	$ 19,993	$ 173,597

5. MINERAL PROPERTY INTERESTS

Balance, December 31, 2007 (audited)	$	10,764,101
Acquisition costs:		
Cash payments		2,637,259
Cost recoveries		(585,717)
		2,051,542
Deferred exploration costs:		
Incurred during the year:		
Drilling and analysis		2,287,165
Field expenses		4,486,597
Hydroelectric facility		151,577
IGV		1,713,022
Personnel		1,304,542
Professional fee		47,887
Travel		258,972
		10,249,762
Total expenditures for the year		12,301,304
Balance, December 31, 2008 (audited)		23,065,405
Acquisition costs:		
Cash payments		831,381
Cost recoveries		(396,503)
		434,878
Deferred exploration costs:		
Incurred during the period:		
Drilling and analysis		47,202
Field expenses		641,365
Hydroelectric facility		101,100
IGV		338,908
Personnel		436,951
Survey and mapping		19,906
Travel		38,626
		1,624,058
Total expenditures for the period		2,058,936
Balance, June 30, 2009	**$**	**25,124,341**

5. MINERAL PROPERTY INTERESTS (cont'd…)

Property acquisition

During 2007 and 2008, the Company acquired notes due from Compania Minerales Santander Inc. S.A.C. ("Santander") from Santander's third party creditors. Santander is an insolvent Peruvian company controlled by its creditors under applicable Peruvian insolvency regulations, incorporated on December 11, 2007, representing a restructured former division of Santander Holdings Inc. The third party notes have a face value of $8,022,259 representing approximately 90% of Santander's debts after certain restructuring activities approved by its Creditors Committee on December 11, 2007, and were acquired by the Company for $3,445,681 and 1,000,000 common shares (Note 6(i)) of the Company (valued at $1.70 per share for a total value of $1,700,000), or total consideration of $5,145,681. The purpose of these transactions was to gain assurance that the Company would be assigned Santander's mineral property interests (see below). Accordingly, these costs are considered property acquisition costs. Recoveries resulting from collection of the third party notes will be treated as acquisition cost recoveries in the periods received

.On November 19, 2007, the Company entered into an assignment agreement with Santander whereby the Company obtained the rights to explore, develop, process and commence commercial activities on 66 mining concessions covering 950 hectares from Santander. The concessions give rights to a zinc property located in the province of De Huaral Deparmento de Lima, Peru. The Company is required to make monthly payments to Santander that are the greater of a 3.5% net smelter royalty ("NSR") on any production and US$100,000, commencing January 1, 2008. Any NSR payments made prior to commencement of production will be applied to any future royalties payable. The assignment of these mining concessions to the Company will be in effect for 50 years plus an automatic renewal for another 50 years thereafter. The Company holds the option to opt out of the assignment agreement at any time without penalty.

On December 3, 2007, the Company agreed to issue 2,000,000 common shares (Note 6(i)) to the shareholders of Santander Holdings Inc. for i) the assignment of the mining concessions as described above; ii) agreeing to restructure the division of Santander Holdings Inc., which owned the above concessions and hydroelectric plant; and iii) assistance in purchasing the debts of Santander. The common shares, which were issued on February 25, 2008, have been valued at $1.70 per share for a total value of $3,400,000.

The Company has also acquired 6 additional concessions surrounding the 66 mining concessions above, covering an additional 3,504 hectares.

During 2007, the Company entered into a lease agreement for the use of a hydroelectric plant in connection with the acquisition of the mining concessions in Peru. The Company is obligated to make monthly payments of US$14,000 (commencing in April 2008) totaling US$1,680,000 until 2018 as follows:

2009	$	168,000
2010	$	168,000
2011	$	168,000
2012	$	168,000
2013 and thereafter	$	882,000

Acquisitions

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps in accordance with industry standards to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

5. MINERAL PROPERTY INTERESTS (cont'd…)

Environmental expenditures

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, will be charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries. The Company is not aware of any AROs as of June 30, 2009 and December 31, 2008.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized:

Unlimited number of common shares without par value

	Number of Shares	Capital Stock	Contributed Surplus
Issued and outstanding			
Balance, December 31, 2006 (audited)	5,411,221	$ 6,271,709	$ 1,121,922
Stock-based compensation	-	-	3,907,400
Private placements	23,340,000	14,902,500	-
Share issue costs	-	(616,465)	-
Balance, December 31, 2007 (audited)	28,751,221	20,557,744	5,029,322
Stock-based compensation	-	-	177,394
Private placements	667,518	500,638	-
Share issue costs	-	(9,187)	-
Shares issued for mineral property interests	3,000,000	5,100,000	-
Exercise of warrants	2,165,914	3,248,871	-
Balance, December 31, 2008 (audited)	34,584,653	29,398,066	5,206,716
Stock-based compensation	-	-	213,537
Private placements	2,179,250	1,743,400	-
Shares issue cost	-	(962)	962
Balance, June 30, 2009	**36,763,903**	**$ 31,140,504`**	**$ 5,421,215**

During the six months ended June 30, 2009, the Company:

i. Closed a non-brokered private placement consisting of 2,179,250 units at $0.80 per unit for a gross proceeds of $1,743,400. Each unit is comprised of one common share and one-half a share purchase warrant. Each whole warrant is exercisable at a price of $1.30 per common share for a period of two years from closing date of financing. The warrants carry a forced conversion feature such that should the common shares of the Company trade at or above of $2.20 per share for 20 consecutive trading days, the Company may (within 30 days of such occurrence) notify warrant holders in writing that the warrants must be exercised within 30 calendar days of the notice and subsequent to which any unexercised warrants will expire. The gross proceeds above include $1,000,000 from a related company.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

During the year ended December 31, 2008, the Company:

i. Issued 3,000,000 common shares pursuant to an issuance obligation for the acquisition of mineral property interests as of December 31, 2007 (Note 5).

ii. Issued 2,165,914 common shares on the exercise of share purchase warrants.

iii. Completed a non-brokered private placement for total proceeds of $500,638 through the issuance of 667,518 units at a price of $0.75 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one additional common share of the Company at a price of $1.20 per share until December 29, 2010. These warrants are subject to an accelerated expiry provision whereby the warrants will expire 30 days after the Company's shares have traded at or above $2.20 on each of 20 consecutive trading days. A finder's fee of $9,187 was incurred in connection with this private placement. There were 5,360 warrants issued to an agent.

As at June 30, 2009 and December 31, 2008, there were 20,231 common shares of the Company held in escrow.

7. STOCK OPTIONS AND WARRANTS

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the approximate market price of the Company's stock on the date of grant. The options can be granted for a maximum term of five years and vesting periods are determined by the Board of Directors.

As at June 30, 2009, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

	June 30, 2009			December 31, 2008 (audited)		
Expiry Date	Exercise Price	Number of Options	Exercisable	Exercise Price	Number of Options	Exercisable
December 4, 2012	$1.00	2,800,000	2,800,000	$1.00	2,800,000	2,800,000
April 23, 2010	$2.00	300,000	300,000	$2.00	300,000	300,000
January 7, 2011	$0.72	355,000	355,000	-	-	-
May 11, 2011	$1.05	220,000	220,000	-	-	-
		3,675,000	3,675,000		3,100,000	3,100,000

Stock option transactions are as follows:

	June 30, 2009		December 31, 2008 (audited)	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	3,100,000	$1.10	2,800,000	$1.00
Granted	575,000	$0.85	300,000	$2.00
Balance, ending of the period	3,675,000	$0.99	3,100,000	$1.10

7. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock-based compensation

During the six months ended June 30, 2009, the Company granted 355,000 stock options with a fair value of $155,262 or $$0.44 per option and 220,000 stock options with a fair value of $58,276 or $0.26 per option, calculated using the Black-Scholes option pricing model. The stock options all vested at the time they were granted. The stock-based compensation was allocated $58,705 to investor relations, $3,973 to professional fee and $150,860 to consulting in the statements of operations.

During the year ended December 31, 2008, the Company granted 300,000 stock options with a fair value of $177,394 or $0.59 per option, calculated using the Black-Scholes option pricing model. The stock options all vested at the time they were granted. The stock-based compensation was allocated $59,131 to investor relations and $118,263 to consulting in the statements of operations.

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

	2009	2008 (audited)
Risk-free interest rate	1.12%	2.78%
Expected life of options/warrants	2 years	2 years
Annualized volatility	89.8%	46.59%
Dividend rate	0.00%	0.00%

Warrants

At June 30, 2009, warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
1,022,500	$1.50	August 23, 2009 (subsequent amended note 12 (a)))
3,794,086	$1.50	September 4, 2009 (subsequent amended note (12(a)))
339,119	$1.20	December 29, 2010
1,089,625	$1.30	May 11, 2011
6,245,330		

Warrants transactions are summarized as follows:

	June 30, 2009		December 31, 2008 (audited)	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	5,155,705	$1.48	6,982,500	$1.50
Issued	1,089,625	$1.30	339,119	$1.20
Exercised	-	-	(2,165,914)	$1.50
Balance, end of period	6,245,330	$1.45	5,155,705	$1.48

8. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended June 30, 2009, the Company entered into the following transactions with related parties:

(a) Paid or accrued consulting fees of $148,864 (2008 - $107,000) to companies related to directors and officers.

(b) Paid or accrued consulting and directors' fees of $150,519 (2008 - $86,746) to directors and an officer.

(c) Paid or accrued exploration expenditures of $12,455 (2008 - $272,341) to a company with officers in common.

(d) Paid or accrued interest expenses of $3,100 (2008 - $Nil) to a company with officers in common and $32,770 (2008 - $Nil) to a company with directors and officers in common.

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

Included in amounts due to related parties is $280,430 (December 31, 2008 - $219,492) due to Cardero Resource Corp ("Cardero").,a company with common officers for reimbursement of consulting, investor relations and deferred exploration costs, $937,363 (December 31, 2008 - $1,064,679) owing to Dorato Resources Inc.("Dorato"), a company with two common directors and common officers and $46,906 (December 31, 2008 - $Nil) owing to directors.

The amounts due to Cardero are unsecured and bear interest at 1% per annum. Amounts due to Dorato are secured under a promissory note by certain mining equipment owned by the Company's Peruvian subsidiary and bear interest at Libor plus 5% per annum.. The amounts are expected to be repaid within six months (see Note 12 (c)).

9. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates of 30.00% (2008: 31%) with the reported taxes is as follows for the period ended June 30:

	2009	2008
Net loss for the period	$ (892,056)	$ (717,181)
Expected income tax recovery	$ (267,617)	$ (244,702)
Share issue costs	(20,398)	-
Stock-based compensation	65,561	37,641
Other temporary differences	4,139	1,634
Change in timing differences	19,535	-
Reduction in future income taxes resulting from statutory rate reduction	141,597	81,217
Change in valuation allowance	57,183	124,210
	$ -	$ -

9. INCOME TAXES (cont'd…)

The significant components of the Company's future income tax assets are as follows:

	June 30, 2009	December 31, 2008 (audited)
Non-capital losses carried forward	$ 684,215	$ 494,000
Tax value in excess of book value of share issuance costs	88,868	107,000
Tax value in excess of book value of equipment	1,408	1,000
	774,491	602,000
Valuation allowance	(774,491)	(602,000)
	$ -	$ -

Future tax benefits that may arise as a result of these amounts have been offset by a valuation allowance reflecting the Company's estimate that these amounts, more likely then not, will not be realized.

The Company has available approximate non-capital losses that may be carried forward to apply against future years' income for income tax purposes in certain jurisdictions. These losses expire as follows:

Available to	Canada	Foreign	Total
2009	$ 76,460	$ -	$ 76,460
2010	7,044	-	7,044
2011	-	174,250	174,250
2012	-	68,810	68,810
2014	6,474	15,042	21,516
2015	2,289	-	2,289
2016	229,509	-	229,509
2027	352,819	-	352,819
2028	1,226,969	-	1,226,969
2029	712,674	-	712,674
	$ 2,614,238	$ 258,102	$ 2,872,340

10. SEGMENTED INFORMATION

The business of the Company is the acquisition and exploration of mineral properties.

Geographic information is as follows:

	June 30, 2009			December 31, 2008 (audited)		
	Canada	Peru	Total	Canada	Peru	Total
Cash	$ 48,388	$ 52,039	$ 100,427	$ 296,051	$ 190,208	$ 486,259
Mineral property interests	-	25,124,341	25,124,341	-	23,065,405	23,065,405
Other assets	63,623	359,201	422,824	129,659	295,664	425,323
Total assets	$112,011	$ 25,535,581	$ 25,647,592	$ 425,710	$ 23,551,277	$ 23,976,987

11. CAPITAL MANAGEMENT

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

11. CAPITAL MANAGEMENT (cont'd…)

The Company currently has no source of revenues and is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. 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 six months ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2009:

(a) On August 5, 2009, the Company announced that the terms of an aggregate of 4,816,586 share purchase warrants issued pursuant to private placement financing that closed on August 7, 2007 and August 28, 2007 have been amended to extend the expiry dates from August 7, 2009 and August 28, 2009 to September 18, 2009, and that the exercise price of the warrants is reduced from $1.50 to $0.61 per share.

(b) On August 25, 2009, the Company announced the signing of an agreement with Glencore International AG ("Glencore ") of Switzerland concerning the Mine development of its Santander Project. Under the agreement:

   (i) Glencore will provide and operate a 2,000-tonne-per day (tpd) concentrate plant, thereby allowing production at Santander at significantly higher levels than the 1,250 tpd production initially envisaged.

   (ii) The Company can acquire the plant and associated infrastructure contributed by Glencore over time on a "toll" basis, thereby acquiring 100% ownership in the new mill and processing complex over the coming years.

   (iii) The Company will maintain its full control and ownership of Santander project.

   (iv) Glencore will provide its operational expertise on a 'contractor/toll basis' from mining through to concentrate production.

   (v) Glencore will provide the Company US$2 million, in the form of a convertible financing, to cover exploration, resources definition, development and operational requirements. An advance of US$500,000 can be drawn by the Company upon the recent execution of a Head of Terms agreement with the balance available on upon execution of the Final Agreements. Terms of the financing include: interest at LIBOR 3-month plus 2.5% payable quarterly in arrears; repayment in equal installments over 3 years commencing the later of 6 months from the date of first commercial production from the Santander project, or a 20 months from the date of drawdown; Glencore will have the option to convert to the Company's shares any time after second anniversary of drawdown based on tailing 30 day volume weighted average price at conversion date, subject to a minimum floor conversion price of $0.45 per share, subject to Exchange approval; with security for the financing being the Santander tailing resources.

   (vi) The Company has secured a long-term concentrate off-take sales agreement whereby Glencore will buy 100% of the Santander project area life-of-mine production at benchmark terms.

(c) The amounts owing to Dorato were repaid, including interest, on July 31, 2009 from an additional related party loan of $1,000,000 which is unsecured, bears interest at Libor plus 5% per annum and is due on or before December 31, 2009.