



TREVALI RESOURCES CORP.

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

March 31, 2010

TREVALI RESOURCES CORP.

March 31, 2010

<u>INDEX</u>	<u>Page</u>
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	4-21

**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)

	March 31, 2010	December 31, 2009
		(audited)
ASSETS		
Current		
Cash	\$ 4,215,033	\$ 6,908,644
Accounts receivable	21,180	17,049
Prepaid expenses	35,272	20,657
	<u>4,271,485</u>	<u>6,946,350</u>
Long-term receivable (Note 5)	366,130	222,224
Property and equipment (Note 4)	2,433,368	2,400,506
Exploration advances	5,142	2,782
Mineral property interests (Note 6)	27,539,763	26,198,084
	<u>\$ 34,615,888</u>	<u>\$ 35,769,946</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 490,090	\$ 777,061
Loan payable (Note 7)	395,238	398,016
Due to related parties (Note 11)	39,287	336,241
	<u>924,615</u>	<u>1,511,318</u>
Future income taxes payable (Note 12)	332,265	332,265
Long-term debt (Note 8)	1,761,050	1,734,935
	<u>3,017,930</u>	<u>3,578,518</u>
Non-controlling interest	<u>1,717</u>	<u>1,845</u>
Shareholders' equity		
Capital stock (Note 9)	41,638,657	41,638,657
Contributed surplus (Note 9)	6,271,728	6,271,728
Deficit	(16,314,144)	(15,720,802)
	<u>31,596,241</u>	<u>32,189,583</u>
	<u>\$ 34,615,888</u>	<u>\$ 35,769,946</u>

Nature and continuance of operations (Note 1)

Commitments (Notes 4 and 6)

Subsequent events (Note 15)

On behalf of the Board:

"Anton Drescher" Director
Anton Drescher

"Charles Melbye" Director
Charles Melbye

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

TREVALI RESOURCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
THREE MONTHS ENDED MARCH 31
(Unaudited – Prepared by Management)

	2010	2009
EXPENSES		
Amortization	\$ 8,201	\$ 7,123
Consulting (Notes 10 and 11)	258,422	261,384
Interest (Note 8 and 11)	47,341	-
Investor relations (Notes 10 and 11)	29,103	92,508
Office and administrative (Note 11)	102,396	66,504
Professional fees (Note 10)	113,686	92,745
Transfer agent and filing fees	4,683	3,120
Travel (Note 11)	39,231	18,114
Loss before other items	(603,063)	(541,498)
OTHER ITEMS		
Foreign exchange gain (loss)	9,721	(48,101)
Net loss and comprehensive loss for the period	(593,342)	(589,599)
Deficit, beginning of period	(15,720,802)	(12,822,793)
Deficit, end of period	\$ (16,314,144)	\$ (13,412,392)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding	52,833,076	34,584,653

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

TREVALI RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31
(Unaudited – Prepared by Management)

	2010	2009
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	\$ (593,342)	\$ (589,599)
Items not affecting cash:		
Amortization	8,201	7,123
Unrealized gain on foreign exchange	(16,374)	-
Accretion interest (Note 8(b))	43,715	-
Changes in non-cash working capital items:		
Accounts receivable	(4,131)	7,533
Long-term receivables	(143,906)	-
Prepaid expenses	(14,615)	10,972
Due to related parties	(125,965)	331,574
Accounts payable and accrued liabilities	10,192	31,163
Net cash flows used in operating activities	<u>(836,225)</u>	<u>(45,972)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares subscription receivables	-	100,500
Net cash flows provided by financing activities	<u>-</u>	<u>100,500</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Mineral property interests and exploration advances	(1,816,195)	(217,101)
Purchase of property and equipment	(41,191)	-
Net cash flows used in investing activities	<u>(1,857,386)</u>	<u>(217,101)</u>
Decrease in cash for the period	(2,693,611)	(162,573)
Cash, beginning of period	6,908,644	486,259
Cash, end of period	\$ 4,215,033	\$ 323,686
Supplemental cash flow information		
Interest paid	\$ 47,341	\$ -
Income taxes paid	\$ -	\$ -
Non-cash transactions		
Share subscriptions receivable	\$ -	\$ 100,500
Due to related parties included in mineral property interests	\$ 5,524	\$ 1,811,943
Accounts payable and accrued liabilities included in mineral property interests	\$ 311,129	\$ 1,114,298

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

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

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 in Peru. 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 periods ending March 31, 2010, the Company has incurred significant operating losses of \$593,342 (year ended December 31, 2009 - \$2,898,009), is currently unable to self-finance operations, has working capital of \$3,346,870 (December 31, 2009 - working capital of \$5,435,032), has a deficit at March 31, 2010 of \$16,314,144 (December 31, 2009 - \$15,720,802), 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 equity or debt 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 Compania Hidroelectrica Tingo S.A.C (99.9% owned). All significant intercompany balances and transactions were eliminated upon consolidation. In addition, the Company consolidates variable interest entities for which it is determined to be the primary beneficiary.

Acquisition of assets

The acquisition of mineral property interests and related assets is often effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transactions are accounted for as asset acquisitions.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Variable interest entities

The Company accounts for variable interest entities (“VIE”) in accordance with the Canadian Institute of Chartered Accountants’ (“CICA”) Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG 15”). AcG 15 prescribes the application of consolidation principles for entities that meet the definition of a VIE. An enterprise holding other than a controlling interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary, whereby it would absorb the majority of the VIE’s expected losses, receive the majority of its expected residual returns, or both.

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 period. Significant areas requiring the use of estimates include accrual of liabilities, present value of long-term debt, rates of amortization of property and equipment, impairment and recoverability of mineral property interests, amounts of reclamation and environmental obligations, assumptions used to determine the fair value of stock-based compensation, balance of future income taxes payable 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

Cash consists primarily of cash on deposit.

Amortization

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

Buildings and infrastructure	-	3% straight-line, when in service
Construction in progress	-	Not yet in service
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 period are amortized at one-half the annual rates and none is taken during the year of disposal.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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.

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 quarterly, 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 consolidated 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.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. 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.

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.

Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

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 of such instruments.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments and comprehensive income (cont'd...)

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 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.

Adoption of new accounting standards and developments

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 section was effective for the Company after January 1, 2009. The adoption of this standard had no effect on the Company's consolidated financial statements.

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 section was effective for the Company on January 1, 2009. The adoption of this standard had no effect on the Company's consolidated financial statements.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", 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.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting changes (cont'd...)

Business Combinations (cont'd...)

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.

Section 1601, “Consolidated Financial Statements”, establishes the standards for preparing consolidated financial statements.

Section 1602, “Non-Controlling Interests” establishes the standards for the accounting for non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the IFRS on consolidated and separate financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after February 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 as held for trading; accounts payable and accrued liabilities, loan payable, due to related parties and long-term debt as other financial liabilities.

The carrying values of cash and accounts payable and accrued liabilities approximate their fair values due to the expected maturity of these financial instruments. Loan payable and long-term debt are carried at amortized cost.

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

(a) Credit risk

Concentration of credit risk exists with respect to the Company’s cash as all amounts are held at a single major Canadian financial institution and a major Peruvian financial institution. The Company’s concentration of credit risk and maximum exposure thereto is as follows:

Cash	March 31, 2010	December 31, 2009
Held at a major Canadian financial institution	\$ 3,420,990	\$ 6,023,782
Held at a major Peruvian financial institution	794,043	884,862
	\$ 4,215,033	\$ 6,908,644

The credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with major Canadian and Peruvian financial institutions with strong investment-grade ratings by a primary ratings agency.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying 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 required by operations and anticipated investing and financing activities. The Company normally maintains sufficient cash to meet the Company's business requirements. However, at March 31, 2010 the cash balance of \$4,215,033 would be insufficient to meet the needs for the coming year. Therefore, the Company will likely be required to raise additional capital in order to fund its operations in 2010. The remaining contractual maturities of the financial liabilities of the Company on March 31, 2010 are as follows:

	0 to 3 months	3 to 6 months	6 to 12 months	1 year to 5 years	Total
Accounts payable and accrued liabilities	\$ 490,090	\$ -	\$ -	\$ -	\$ 490,090
Loan payable	-	395,238	-	-	395,238
Due to related parties	39,287	-	-	-	39,287
Long-term debt	-	-	-	2,702,028	2,702,028
	<u>\$ 529,377</u>	<u>\$ 395,238</u>	<u>\$ -</u>	<u>\$ 2,702,028</u>	<u>\$ 3,626,643</u>

(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 three types of risk: interest rate risk, foreign currency risk and other price risk.

i. Interest rate risk

Interest rate risk consists of two components to the extent that:

- (i) payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and
- (ii) changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash consists primarily of 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 March 31, 2010. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

The Company is exposed to interest rate cash flow risk on certain long-term debt amounts as the payments will fluctuate during their term with changes in the interest rate. The Company's sensitivity analysis suggests that a 1% change in interest rates will not have a material effect on future cash flows.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

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

(c) Market risk (cont'd...)

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 change in the absolute rate of exchange in Peruvian soles ranging from 0.3566 to 0.3751, and a change in absolute rate of exchange in the U.S dollar ranging from 1.0103 to 1.0743, the foreign currencies for which the Company has net monetary liabilities, would affect foreign exchange expense by \$22,000 in these consolidated financial statements.

iii. 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 currency risk or commodity price risk. The Company has no financial instruments exposed to other price risk.

4. PROPERTY AND EQUIPMENT

	March 31, 2010			December 31, 2009 (audited)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings and infrastructure	\$ 1,555,675	\$ 4,734	\$ 1,550,941	\$ 1,555,802	\$ 3,195	\$ 1,552,607
Construction in progress	725,667	-	725,667	695,878	-	695,878
Computer equipment	31,234	18,481	12,753	31,234	16,558	14,676
Office equipment	156,696	23,483	133,213	145,295	19,788	125,507
Leasehold improvements	17,061	6,267	10,794	17,061	5,223	11,838
	<u>\$ 2,486,333</u>	<u>\$ 52,965</u>	<u>\$ 2,433,368</u>	<u>\$ 2,445,270</u>	<u>\$ 44,764</u>	<u>\$ 2,400,506</u>

Hydroelectric facility

During 2007, the Company entered into a lease agreement for the use of a hydroelectric facility of Compania Minerales Santander Inc. S.A.C. ("Santander") in connection with the acquisition of the mining concessions in Peru (Note 6). Prior to the termination of the lease payments on March 31, 2009, the Company was obligated to make monthly payments of US\$14,000 (commencing in April 2008) totaling US\$1,680,000 until 2018 as follows:

2010	\$ 168,000
2011	\$ 168,000
2012	\$ 168,000
2013	\$ 168,000
2014 and thereafter	\$ 714,000

On September 29, 2009, the Company acquired the hydroelectric facility for \$996,795 (US\$969,600), which has been included in buildings and infrastructure, along with additional capital costs totaling \$746,853, which include \$21,186 for buildings, and infrastructure and \$725,667 for construction in progress. Facility costs of \$554,826 considered to be pre-operative in nature were written off to operations in 2009.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

5. LONG-TERM RECEIVABLE

The long-term receivable of \$366,130 (2009 - \$222,224) is input tax credits incurred by Compania Hidroelectrica Tingo S.A.C. in Peru and which may only be recoverable from taxes collected from sale of hydro electric power in the future and a receivable from Compania Minerales Santander S.A.C. which has no set date of repayment and bear no interest.

	March 31, 2010	December 31, 2009
		(audited)
VAT	\$ 242,082	\$ 222,224
Compania Minerales Santander receivables	124,048	-
	<u>\$ 366,130</u>	<u>\$ 222,224</u>

6. MINERAL PROPERTY INTERESTS

Balance, December 31, 2008 (audited)	\$ 23,065,405
Acquisition costs:	
Cash payments	721,705
Third party creditor obligation (Note 8(b))	1,165,720
Cost recoveries	(1,509,504)
	<u>377,921</u>
Deferred exploration costs:	
Incurred during the year:	
Drilling and analysis	517,473
Field expenses	712,993
IGV (value added tax)	445,706
Personnel	968,408
Survey and mapping	22,593
Travel	87,585
	<u>2,754,758</u>
Total expenditures for the year	<u>3,132,679</u>
Balance, December 31, 2009 (audited)	\$ 26,198,084
Acquisition costs:	
Cash payments	-
Cost recoveries	(5,837)
	<u>(5,837)</u>
Deferred exploration costs:	
Incurred during the period:	
Drilling and analysis	44,054
Field expenses	857,529
IGV (value added tax)	174,581
Personnel	261,053
Travel	10,299
	<u>1,347,516</u>
Total expenditures for the period	<u>1,341,679</u>
Balance, March 31, 2010	\$ 27,539,763

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

6. MINERAL PROPERTY INTERESTS (cont'd...)

Property Acquisition (the “Santander Project”)

Mineral Property Interests

During 2007 and 2008, the Company acquired notes due from 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 remaining face value of \$6,159,805 representing approximately 75% of Santander’s debts after certain restructuring activities approved by its Creditors Committee on December 11, 2007, for total consideration of \$3,935,457, which included 1,000,000 common shares of the Company (valued at \$1.70 per share for a total value of \$1,700,000). 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 are 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 “Property”). The concessions give rights to a zinc property located in the province of De Huaral Departamento 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. The mining concession lease was amended in July 2009 (the “Addendum Agreement”) whereby further monthly advance royalty payments were curtailed until significant commercial production has commenced. 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. In consideration for the suspension of the minimum monthly payment of US\$100,000, the Company agreed to advance to Santander by way of loan all necessary funds to cover the on-going costs of Santander’s bankruptcy proceedings estimated to be US\$250,000 per annum. Any funds advanced by the Company to Santander will rank as a first charge against the assets of Santander. In addition, the Company was granted the exclusive right, up to September 30, 2014, to acquire the mineral concessions, which comprise the Property for a payment equal to the balance of the Santander insolvency liabilities outstanding on the date the Company exercises the right plus US\$300,000. As of March 31, 2010, the outstanding third party liabilities of Santander is approximately US\$2,160,000, not including the third party notes purchased by the Company or quarterly distributions to all creditors of US\$230,000 to commence in March 2011, and may be subject to change during the Santander bankruptcy proceedings. The Company has recorded the present value of the obligation to those third party creditors for US\$2,160,000 of which the calculated present value is \$1,165,720 (Note 8). The terms of the Addendum Agreement were approved by the Santander creditors at a creditors’ meeting held on September 29, 2009.

On December 3, 2007, the Company agreed to issue 2,000,000 common shares 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 the 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.

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 (Note 4).

The Company has also acquired six additional concessions surrounding the 66 mining concessions above, covering an additional 3,504 hectares, and has secured the right to purchase certain mining camp assets for US\$290,000.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

6. MINERAL PROPERTY INTERESTS (con't...)

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.

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 March 31, 2010 and December 31, 2009.

Realization of assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

7. LOAN PAYABLE

A loan agreement was signed on June 1, 2009 in the amount of US\$380,000. The loan is unsecured, bears interest at 10% annually commencing January 1, 2010 and is repayable on June 1, 2010 (Note 15(e)).

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

8. LONG-TERM DEBT

	March 31, 2010	December 31, 2009 (audited)
(a) Advance on convertible debenture:		
<p>Pursuant to a memorandum of understanding dated May 15, 2009 between the Company and Glencore International AG (“Glencore”), and subject to a positive joint mine development study in relation to the Company’s Santander Project in Peru, Glencore will provide US\$2 million to the Company. An advance of US\$500,000 was drawn by the Company with the balance available upon execution of the final agreements.</p> <p>The final debenture will be repayable in equal instalments over three years commencing the later of six months from the date of first commercial production from the Santander Project, or 20 months from the date of drawdown, and will bear interest at Libor (three-month) plus 2.5%, payable quarterly on arrears. Glencore will have the option to convert the debenture loan to the Company’s common shares any time after the second anniversary of drawdown based on trailing 30-day volume weighted average price at conversion date, subject to a minimum floor conversion price of \$0.64 per share, with security for the financing being the Santander Project tailing resource. The Company has also 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 and will build and operate of the Santander mine facility. Completion of the convertible debenture, the terms of which are not expected to differ from those described above, will be subject to regulatory approval and will occur in conjunction with the finalization of a master contract mining agreement.</p>		
Balance of advance,	\$ 507,900	\$ 525,500
(b) Third party Santander creditor obligation:		
<p>On September 29, 2009, Santander became a variable interest entity of the Company by virtue of Santander’s Creditors Committee approval of the mineral concession purchase option granted to the Company, together with other Company obligations relating thereto (Note 6). The Company has recorded the present value of the obligation to those third party creditors of US\$2,160,000, due on or before September 30, 2014, at a discount rate of 15%</p>		
	1,209,435	1,165,720
Accretion interest	43,715	43,715
Balance of obligation	1,253,150	1,209,435
Total long-term debt	\$ 1,761,050	\$ 1,734,935

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

9. 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, 2008	34,584,653	\$ 29,398,066	\$ 5,206,716
Stock-based compensation	-	-	911,450
Private placements	13,181,250	9,444,800	-
Agent's compensation shares	264,999	185,499	-
Agent's compensation warrants	-	(153,562)	153,562
Shares issue cost	-	(268,414)	-
Shares issued for debt	1,470,588	1,000,000	-
Exercise of warrants	3,331,586	2,032,268	-
Balance, December 31, 2009 and March 31, 2010	52,833,076	\$ 41,638,657	\$ 6,271,728

During the year ended December 31, 2009, the Company:

- i. Closed a non-brokered private placement consisting of 2,179,250 units at \$0.80 per unit for 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 for a period of two years until May 11, 2011. The warrants carry a forced conversion feature such that should the common shares of the Company trade at or above \$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.
- ii. Issued 3,331,586 common shares on the exercise of share purchase warrants at \$0.61 per share for gross proceeds of \$2,032,268.
- iii. Settled an outstanding loan of \$1,000,000 owing to Cardero Resources Corp. ("Cardero") (Note 11) by issuing 1,470,588 units at a price of \$0.68 per unit, each unit consisting of one common share and one-half of one warrant. One whole warrant will entitle the holder to purchase one additional common share of the Company for a period of two years until October 9, 2011 at a price of \$1.00.
- iv. Closed a non-brokered private placement of 11,002,000 units at \$0.70 per unit for gross proceeds of \$7,701,400. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable at a price of \$1.15 per common share for a period of two years until December 10, 2011. The warrants will carry a forced conversion feature such that should the common shares of the Company trade at or above \$1.30 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, subsequent to which any unexercised warrants will expire. The Company paid finders fees of \$82,916 in cash plus 264,999 agents compensation units valued at \$185,499, each such unit having the same terms as the private placement units. The Company also granted the agent 381,313 compensation warrants exercisable at \$1.15 until December 10, 2011, valued at \$153,562.

As at March 31, 2010 and December 31, 2009, there were 29,961 common shares of the Company held in escrow.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

10. 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 March 31, 2010, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Expiry Date	March 31, 2010			December 31, 2009 (audited)		
	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 (expired (Note 15))	\$2.00	300,000	300,000	\$2.00	300,000	300,000
January 7, 2011	\$0.72	355,000	355,000	\$0.72	355,000	355,000
May 11, 2011	\$1.05	220,000	220,000	\$1.05	220,000	220,000
December 16, 2011	\$0.95	1,275,000	1,275,000	\$0.95	1,275,000	1,275,000
		4,950,000	4,950,000		4,950,000	4,950,000

Stock option transactions are as follows:

	March 31, 2010		December 31, 2009 (audited)	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	4,950,000	\$1.03	3,100,000	\$1.10
Granted	-	-	1,850,000	\$0.92
Balance, end of the period	4,950,000	\$1.03	4,950,000	\$1.03

Stock-based compensation

During the quarter ending March 31, 2010, the Company granted nil (2009 – 355,000) stock options with a fair value of \$nil (2009 - \$169,087), or \$nil (2009 - \$0.48) 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 \$nil (2009 - \$116,694) to consulting and \$nil (2009 - \$52,393) to investor relations.

During the year ended December 31, 2009, the Company granted 355,000 stock options with a fair value of \$169,087, or \$0.48 per option, 220,000 stock options with a fair value of \$149,820, or \$0.68 per option, and 1,275,000 stock options with a fair value of \$592,542, or \$0.46 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 \$568,318 to consulting, \$265,529 to investor relations and \$19,510 to professional fees in the statements of operations, and \$58,092 to mineral properties.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

10. STOCK OPTIONS AND WARRANTS (cont'd...)

The fair value of stock options and agent's warrants is estimated using the Black-Scholes option pricing model with the following weighted average calculations:

	2009
Risk-free interest rate	1.25%
Expected life of options/warrants	2 years
Annualized volatility	98.61%
Dividend rate	0.00%

Warrants

Warrants transactions are summarized as follows:

	March 31, 2010		December 31, 2009 (audited)	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Number of Warrants
Balance, beginning of period	8,178,852	\$1.16	5,155,705	\$1.48
Issued	-	-	7,839,733	\$1.16
Exercised	-	-	(3,331,586)	\$0.61
Expired	-	-	(1,485,000)	\$0.61
Balance, end of period	8,178,852	\$1.16	8,178,852	\$1.16

At March 31, 2010 and December 31, 2009, warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
339,119	\$1.20	December 29, 2010
1,089,625	\$1.30	May 11, 2011
735,294	\$1.00	October 9, 2011
6,014,814	\$1.15	December 10, 2011
8,178,852		

On August 5, 2009, the Company amended the terms of an aggregate of 4,816,586 share purchase warrants issued pursuant to private placement financings that were to expire on August 7, and August 28, 2009 to September 18, 2009 and reduced the exercise price of the warrants from \$1.50 to \$0.61 per share. The incremental value of the amended warrants, which was measured by the difference between the fair value of the amended warrants determined using the Black-Scholes option pricing model and the value of the old warrants immediately before their terms were modified, determined based on the shorter of their remaining expected life and the expected life of the amended warrants, was determined to be insignificant.

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

11. RELATED PARTY TRANSACTIONS AND BALANCES

During the three months ended March 31, 2010, the Company entered into the following transactions with related parties:

- (a) Paid or accrued consulting fees of \$74,899 (2009 - \$64,500) to companies related to directors and officers.
- (b) Paid or accrued consulting and directors' fees of \$70,840 (2009 - \$61,994) to directors and an officer.
- (c) Paid or accrued exploration expenditures of \$6,747 (2009 - \$11,262) to a company with officers in common.
- (d) Paid or accrued interest expense of \$90 (2009 - \$Nil) to a company with officers in common.
- (e) Paid or accrued administrative expenses of \$11,566 (2009 - \$12,075) to a company with officers in common for reimbursement of rent, administrative support and office expenses.
- (f) Reimbursed office expenses of \$3,846 (2009 - \$1,111), travel expenses of \$28,494 (2009- \$2,559), consulting expenses of \$Nil (2009 - \$9,737), and investor relations expenses of \$5,145 (2009 - \$1,307) to a company with officers in common.

Amounts due to related parties is comprised of \$39,287 (December 31, 2009 - \$336,241) due to Cardero Resources Corp., a company with common officers, for reimbursement of consulting, investor relations and deferred exploration costs.

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.

12. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates of 30% (2009 - 31%) with the reported taxes is as follows for the period ended March 31:

	2010	2009
Net loss for the period	\$ (593,342)	\$ (589,599)
Expected income tax recovery	\$ (178,003)	\$ (172,556)
Share issue costs	(14,225)	(10,199)
Stock-based compensation	-	46,579
Other temporary differences	18,628	431
Change in timing differences	9,459	9,768
Reduction in future income taxes resulting from statutory rate reduction	18,088	126,031
Change in valuation allowance	146,053	(54)
	<u>\$ -</u>	<u>\$ -</u>

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

12. INCOME TAXES (cont'd...)

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

	March 31, 2010	December 31, 2009
		(audited)
Non-capital losses carried forward	\$ 1,156,740	\$ 1,006,228
Tax value in excess of book value of share issuance costs	112,992	124,846
Tax value in excess of book value of property and equipment	15,409	13,015
	1,285,141	1,144,089
Valuation allowance	(1,285,141)	(1,144,089)
Future income tax asset	\$ -	\$ -
Future income tax liability – excess of book value over tax value of property and equipment	\$ 332,265	\$ 322,265

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 than 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
2010	\$ 7,044	\$ -	\$ 7,044
2013	-	875,736	875,736
2014	6,474	216,898	223,372
2015	2,289	-	2,289
2016	229,509	-	229,509
2027	352,819	-	352,819
2028	1,226,969	-	1,226,969
2029	1,148,925	-	1,148,925
2030	341,435	-	341,435
	\$ 3,315,464	\$ 1,092,634	\$ 4,408,098

13. SEGMENTED INFORMATION

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

Geographic information is as follows:

	March 31, 2010			December 31, 2009		
	Canada	Peru	Total	Canada	Peru	Total
Cash	\$ 3,420,990	\$ 794,043	\$ 4,215,033	\$ 6,023,782	\$ 884,862	\$ 6,908,644
Property and equipment	14,187	2,419,181	2,433,368	15,506	2,385,000	2,400,506
Mineral property interests	-	27,539,763	27,539,763	-	26,198,084	26,198,084
Other assets	29,142	398,582	427,724	30,851	231,861	262,712
Total assets	\$ 3,464,319	\$ 31,151,569	\$ 34,615,888	\$ 6,070,139	\$ 29,699,807	\$ 35,769,946

TREVALI RESOURCES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited – Prepared by Management)

14. 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.

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 three months ended March 31, 2010. The Company is not subject to externally imposed capital requirements.

15. SUBSEQUENT EVENTS

Subsequent to March 31, 2010, the Company:

- (a) Issued 20,000 shares at \$0.95 per share upon the exercise of stock options for total proceeds of \$19,000;
- (b) Granted options to purchase 300,000 common shares at a price of \$1.25 per share on April 28, 2010 for a period of two years;
- (c) 300,000 stock options with an exercise price of \$2.00 per share expired unexercised;
- (d) Issued 57,875 shares at \$1.15 per share upon the exercise of share purchase warrants and agent's compensation warrants for total proceeds of \$66,556; and
- (e) Repaid the loan payable (Note 7) on April 29, 2010.