



**TREVALI MINING CORPORATION
(Formerly Trevalli Resources Corp.)**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

(Expressed in Canadian Dollars)

Nine Months Ended September 30, 2011 and 2010

Corporate Head Office
2300-1177 West Hastings Street
Vancouver, BC
Canada
V6E 2K3
Tel: 604-488-1661

TREVALI MINING CORPORATION
(Formerly Trevali Resources Corp.)
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

September 30, 2011 and 2010

INDEX

Page

Interim Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position	1
Condensed Consolidated Statements of Operations and Comprehensive Loss	2
Condensed Consolidated Statements of Cash Flows	3
Condensed Consolidated Statements of Changes in Shareholders' Equity	4
Notes to the Condensed Consolidated Financial Statements	5-40

TREVALI MINING CORPORATION (Formerly Trevali Resources Corp.)
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	September 30, 2011	December 31, 2010
		(Note 22)
ASSETS		
Current		
Cash	\$ 9,982,574	\$ 1,544,299
Restricted cash (Note 17)	107,667	2,316,586
Accounts receivable (Note 6)	1,563,804	136,964
Prepaid and other expenses	664,762	263,094
	<u>12,318,807</u>	<u>4,260,943</u>
Reclamation bond (Note 17)	375,160	-
Restricted cash (Note 17)	-	102,825
Long-term receivable (Note 8)	1,256,553	290,508
Property, plant and equipment (Notes 7, 12 and 15)	<u>135,136,877</u>	<u>34,184,578</u>
	<u>\$ 149,087,397</u>	<u>\$ 38,838,854</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Notes 9 and 15)	\$ 5,950,029	\$ 1,117,060
Loan payable (Note 10)	8,863,464	-
Due to related parties (Note 15)	171,252	187,782
	<u>14,984,745</u>	<u>1,304,842</u>
Financial leases (Note 12)	113,698	-
Long-term debt (Note 13)	3,584,520	3,265,421
Deferred income taxes (Note 16)	<u>3,875,175</u>	<u>-</u>
	<u>22,558,138</u>	<u>4,570,263</u>
Shareholders' equity		
Capital stock (Note 14)	133,593,945	46,334,531
Share-based payment reserve	17,196,303	6,785,949
Deficit	<u>(24,260,989)</u>	<u>(18,851,889)</u>
	<u>126,529,259</u>	<u>34,268,591</u>
	<u>\$ 149,087,397</u>	<u>\$ 38,838,854</u>

Nature and continuance of operations (Note 1)

Commitments (Notes 7, 12 and 17)

Subsequent event (Note 21)

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 condensed consolidated financial statements.

TREVALI MINING CORPORATION (Formerly Trevali Resources Corp.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
THREE AND NINE MONTHS ENDED SEPTEMBER 30

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
EXPENSES				
Amortization	\$ 12,539	\$ 9,371	\$ 35,794	\$ 26,578
Consulting fees (Notes 14 and 15)	179,152	383,755	1,220,828	1,028,650
Interests	-	-	-	90
Investor relations (Notes 14 and 15)	89,819	28,437	296,788	170,829
Office and miscellaneous (Notes 14 and 15)	171,329	65,565	668,178	214,419
Professional fees (Note 15)	255,491	180,909	801,252	413,680
Regulatory (Note 15)	27,597	16,215	192,834	46,307
Travel and promotion (Note 15)	105,325	16,946	225,251	83,125
	(841,252)	(701,198)	(3,440,925)	(1,983,678)
OTHER ITEMS				
Gain (loss) on foreign exchange	(359,024)	41,407	(536,294)	79,378
Write-down of leasehold improvement	-	-	(6,615)	-
Business combination expenses	(24,018)	-	(1,425,266)	-
Net Loss and comprehensive loss for the period	\$ (1,224,294)	\$ (659,791)	\$ (5,409,100)	\$ (1,904,300)
Basic and fully diluted loss per share	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.04)
Weighted average number of shares outstanding	102,697,569	54,079,041	84,642,625	53,273,150

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

TREVALI MINING CORPORATION (Formerly Trevali Resources Corp.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED SEPTEMBER 30

	2011	2010
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	\$ (5,409,100)	\$ (1,904,300)
Items not affecting cash:		
Amortization	35,794	26,578
Share-based payment expense	609,908	151,278
Unrealized loss on foreign exchange	262,489	(47,977)
Write-down of leasehold improvements	6,615	-
Changes in non-cash working capital items:		
Accounts receivable	(1,169,381)	(210,385)
Prepaid and other expenses	(356,152)	(45,264)
Long-term receivable	(966,045)	(250,495)
Accounts payable and accrued liabilities	(11,811)	(26,387)
Due to / from related parties	(22,582)	(152,742)
Net cash flows used in operating activities	<u>(7,020,265)</u>	<u>(2,459,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued for cash, net of share issue cost	42,207,635	3,846,307
Payment on secured debenture	(519,863)	-
Financial leases acquired	113,698	-
Convertible debenture	-	1,578,600
Loan payable	-	(392,804)
Net cash flows provided by (used in) financing activities	<u>41,801,470</u>	<u>5,032,103</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition net of cash acquired	(1,314,051)	-
Decrease in restricted cash	2,441,919	-
Purchase of property plant and equipment	(28,009,799)	(4,152,534)
Net cash flows used in investing activities	<u>(26,881,931)</u>	<u>(4,152,534)</u>
Effect of foreign exchange on cash and restricted cash	<u>539,001</u>	<u>(64)</u>
Increase (decrease) in cash for the period	<u>8,438,275</u>	<u>(1,580,189)</u>
Cash, beginning of period	<u>1,544,299</u>	<u>6,908,644</u>
Cash, end of period	<u>\$ 9,982,574</u>	<u>\$ 5,328,455</u>
Non-cash transactions		
Due to related parties included in property, plant and equipment	\$ 7,776	\$ 1,724
Accounts payable and accrued liabilities included in property, plant and equipment	\$ 5,549,904	\$ 705,125
Share issued in business combination	\$ 45,133,338	\$ -
Fair value of agent's warrants issued	\$ 418,726	\$ -

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

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Number of shares	Issued Share Capital	Share-based payment reserve	Deficit	Total Equity
Balance, January 1, 2010	52,833,076	\$ 41,638,657	\$ 6,271,728	\$ (15,720,802)	\$ 32,189,583
Private placement	3,582,144	3,761,251	-	-	3,761,251
Share issue costs	-	(500)	-	-	(500)
Share-based payment	-	-	165,030	-	165,030
Exercise of warrants	57,875	66,556	-	-	66,556
Exercise of options	20,000	19,000	-	-	19,000
Reallocation from share based payment reserve on exercise of options	-	9,295	(9,295)	-	-
Issuance of convertible debt	-	-	-	-	-
Loss for the period	-	-	-	(1,904,300)	(1,904,300)
Balance, September 30, 2010	56,493,095	45,494,259	6,427,463	(17,625,102)	34,296,620
	Number of shares	Issued Share Capital	Share-based payment reserve	Deficit	Total Equity
Balance, December 31, 2010	57,203,714	46,334,531	6,785,949	(18,851,889)	34,268,591
Share-based payment	-	-	1,335,460	-	1,335,460
Private placements	23,136,216	35,234,977	-	-	35,234,977
Shares issued for business combination	20,992,250	45,133,338	-	-	45,133,338
Fair value of Kria options	-	-	1,810,130	-	1,810,130
Fair value of Kria warrants	-	-	6,977,220	-	6,977,220
Exercise of warrants	6,805,064	7,989,267	-	-	7,989,267
Exercise of options	590,000	524,900	-	-	524,900
Agent compensation shares	442,829	757,850	-	-	757,850
Agent compensation warrants	-	(418,726)	624,711	-	205,985
Share issue cost	-	(2,299,359)	-	-	(2,299,359)
Reallocation from share-based payment reserve on exercise of options	-	337,167	(337,167)	-	-
Loss for the period	-	-	-	(5,409,100)	(5,409,100)
Balance, September 30, 2011	109,170,073	\$ 133,593,945	\$ 17,196,303	\$ (24,260,989)	\$ 126,529,259

1. NATURE, CONTINUANCE OF OPERATIONS AND STATEMENT OF COMPLIANCE

Trevali Mining Corporation (formerly Trevali Resources Corp.) (the "Company" or "Trevali") 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 and New-Brunswick. The Company is a development stage company. In April 2011, the Company changed its name from Trevali Resources Corp. to Trevali Mining Corporation.

These condensed 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 nine months ended September 30, 2011, the Company has incurred operating losses of \$5,409,100 (2010 - \$1,904,300), is currently unable to self-finance operations, has negative working capital of \$2,665,938 (December 31, 2010 - \$2,956,101, positive), has a deficit at September 30, 2011 of \$24,260,989 (December 31, 2010 - \$18,851,889), 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. Although these condensed consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation could 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

Basis of presentation

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011.

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

Basis of consolidation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kria Resources Ltd (“Kria”), Kria Resources Inc. (“Kria Inc”), Trevali Mining (New Brunswick) Ltd, Trevali Peru S.A.C. (“Trevali Peru”), Trevali Renewable Energy Inc. (“Trevali Renewable”) and Compania Hidroelectrica Tingo S.A.C (“Tingo”) (99.9% owned). All significant intercompany balances and transactions were eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with IFRS 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 accrual of liabilities, fair value of long-term debt, rates of amortization, impairment and recoverability of property, plant and equipment, amounts of reclamation and environmental obligations, assumptions used to determine the fair value of share-based payment expense, and determination of recoverability of deferred 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

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency. The financial statements of the subsidiaries have the same functional currency as that of the Company. 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 statement of financial position 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 period.

Property, plant and equipment

- (i) Exploration and evaluation

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation and classified as a component of property, plant and equipment.

Exploration expenditure relates to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Management reviews the carrying value of capitalized exploration costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output.

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

Property, plant and equipment (cont'd...)

(i) Exploration and evaluation (cont'd...)

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If put into production, the costs of acquisition and exploration will be amortized over the life of the property, based on estimated economic reserves. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

(ii) Mine Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as mine development costs and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management, are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as a component of property, plant and equipment.

On initial recognition, plant and equipment are valued at cost, less accumulated depreciation and accumulated impairment losses.

Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with the future cost of dismantling and removing the asset. The corresponding liability is recognized within provisions.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of major overhauls of parts of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-today servicing of property, plant and equipment are recognized in profit or loss as incurred.

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

Buildings and infrastructure	-	3% straight-line, when in service and nil for assets not yet in service
Construction in progress	-	Nil as not yet in service
Other and equipment		
Office equipment	-	10% declining balance basis
Computer equipment	-	25% to 30% declining balance basis
Leasehold improvements	-	Straight-line over the lease term
Equipment	-	15% to 30% declining balance basis

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

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

Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the cash generating unit (“CGU”) and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed.

All other costs are recognized as an expense as incurred.

Impairment of non-current assets

Non-current assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a CGU, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU’s fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Provisions for environmental rehabilitation

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Additional disturbances and changes in closure and reclamation estimates are accounted for as incurred with a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of mine.

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

Share-based payments

The Company has a stock option plan that is described in Note 14. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

Earnings (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.

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under the balance sheet method, deferred 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 bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share Capital

- (i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option and warrant enabled the holder to purchase a share in the Company.
- (ii) Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more readily determinable component based on fair value and then the residual value, to the remaining component.

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

Financial instruments

Financial assets and liabilities are initially recognized at fair value on settlement date and are subsequently measured based on their classification. Transaction costs are expensed when incurred. Regular purchases and sales of financial instruments are recognized at trade date:

(i) Financial assets

The Company classifies its financial assets in the following categories: available-for-sale, held-to-maturity or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of cash and restricted cash as well as accounts receivable.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following categories: other financial liabilities and derivative financial liabilities.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

Derivative financial liabilities

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss.

3. CHANGES IN ACCOUNTING STANDARDS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its financial statements:

(i) IFRS 7 Financial instruments: Disclosure (“IFRS7”)

IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective for annual periods beginning on or after 1 July 2011. The Company is currently evaluating the impact of these amendments to IFRS 7 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

(ii) IAS 12 Income taxes (“IAS 12”)

IAS 12 was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of this amendment to IAS 12 on its consolidated financial statements.

(iii) IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and is the first step to replace current IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

(iv) IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation—Special Purpose Entities” and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

(v) IFRS 13 Fair Value Measurements (“IFRS 13”)

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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 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	September 30, 2011	December 31, 2010
Canadian financial institution	\$ 9,537,610	\$ 582,960
Peruvian financial institution	444,964	961,339
	9,982,574	1,544,299
Peruvian financial institution – restricted, current	107,667	2,316,586
Peruvian financial institution – restricted, long-term	-	102,825
	\$ 10,090,241	\$ 3,963,710

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.

(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. At September 30, 2011 the unrestricted cash balance of \$9,982,574 (2010 - \$1,544,299) is insufficient to meet the needs for the coming year. Therefore, the Company will be required to raise additional capital in order to fund its operations in 2011 and 2012.

The remaining contractual maturities of the financial liabilities of the Company on September 30, 2011 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	\$ 5,950,029	\$ -	\$ -	\$ -	\$ 5,950,029
Due to related parties	171,252	-	-	-	171,252
Financial lease	-	-	-	113,698	113,698
Loan payable	-	8,863,464	-	-	8,863,464
Long-term debt	-	-	-	4,360,512	4,360,512
	\$ 6,121,281	\$ 8,863,464	\$ -	\$ 4,474,210	\$ 19,458,955

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

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

(b) Liquidity risk (cont'd...)

The remaining contractual maturities of the financial liabilities of the Company on December 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	\$ 1,117,060	\$ -	\$ -	\$ -	\$ 1,117,060
Due to related parties	187,782	-	-	-	187,782
Long-term debt	-	-	-	4,137,536	4,137,536
	<u>\$ 1,304,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,137,536</u>	<u>\$ 5,442,378</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 the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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 September 30, 2011. 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.

ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily United States dollars ("USD") and Peruvian soles ("soles"). The Company has net monetary liabilities of \$6,641,500 (December 31, 2010 – \$3,197,000) denominated in USD and net monetary liabilities of \$1,615,500 (December 31, 2010 – \$2,681,000) denominated in soles. For the nine month period ended September 30, 2011, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in USD by 9% will increase or decrease net loss by \$661,200 (2010- \$130,000) and a change in the absolute rate of exchange in soles by 11% will increase or decrease net loss by \$67,800 (2010 - 1,230). The Company has not entered into any foreign currency contracts to mitigate this risk.

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 or, foreign currency risk. The Company has no financial instruments exposed to other price risk.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Nine Months Ended September 30, 2011 and 2010

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

5. ACQUISITION OF KRIA

On April 7, 2011, the Company completed the terms of an Arrangement Agreement and a Plan of Arrangement to acquire Kria (the “Acquisition”). This resulted in the Kria shareholders receiving 20,992,250 common shares of Trevali in exchange for 104,961,250 common shares of Kria (100%), in accordance with an exchange ratio of 0.2 of a common share of Trevali for each one common share of Kria (the “Exchange Ratio”). Kria’s outstanding stock options, warrants and bonus warrants were also adjusted to be exercisable for Trevali shares on the basis of the Exchange Ratio. On completion of the transaction, Kria became a wholly-owned subsidiary of Trevali. The transaction was accounted for as a business combination with Trevali as the acquirer.

Kria is a development stage entity that holds interests in mineral exploration and development properties in Canada.

The fair value of the common shares of the Company issued in connection with the Acquisition has been determined to be \$2.15 per share. The fair values of the Kria share purchase options and warrants that will be honored by the Company were \$1,810,130 and \$6,977,220. All options were vested at the Acquisition date. The fair values were calculated using the Black-Scholes pricing model and were allocated to the total purchase price.

The assumptions used in the calculation are as follow:

	Options	Warrants
Risk-free interest rate	1.73%	1.57%
Expected life of options/warrants (years)	2.05	1.62
Annualized volatility	73.86%	76.20%
Dividend rate	0.00%	0.00%

A provisional allocation of the purchase price was made as of the acquisition date as follows:

Consideration	
Issuance of 20,992,250 common shares	\$45,133,338
Fair value of 5,593,096 company’s warrants	6,977,220
Fair value of 1,355,000 company’s options	1,810,130
Severance fees	1,385,000
	\$55,305,688
Net assets acquired	
Cash and cash equivalent	\$70,949
Amounts receivable	257,459
Prepaid expenses	45,516
Restricted cash	375,160
Equipment	45,773
Exploration and evaluation assets	11,084,147
Mine development	62,400,640
Accounts payable and accrued liabilities	(6,768,980)
Secured debenture	(519,863)
Loan payable	(7,809,938)
Deferred income tax liabilities	(3,875,175)
	\$55,305,688

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2011 and 2010

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

5. ACQUISITION OF KRIA (cont'd...)

As at the date of these unaudited condensed consolidated financial statements were issued, the allocation of the purchase price has not been finalized as management is in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities, and determining the value of goodwill, if any.

During the three months ended September 30, 2011, the fair value of the acquired exploration and evaluation asset and mine development was adjusted to reflect the capitalization of borrowing cost incurred before the acquisition but after the previous year-end. Also a reclamation bond was reclassified from exploration and evaluation assets. Those adjustments also affect the Property, Plant and Equipment continuity schedule (see Note 7).

6. ACCOUNTS RECEIVABLE

	September 30, 2011	December 31, 2010
Input tax credits	\$ 1,424,741	\$104,067
Others	139,063	32,897
	<u>\$ 1,563,804</u>	<u>\$136,964</u>

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

Period ended September 30, 2011	Exploration and evaluation	Mine development	Construction in progress	Buildings and infrastructure	Equipment and other	Total
Cost						
As at January 1, 2011	\$ 1,801,182	\$ 28,885,782	\$ 1,959,716	\$ 1,388,684	\$ 230,512	\$34,265,876
Acquired in business combination	11,084,146	62,400,640	-	-	45,773	73,560,559
Additions	3,232,762	10,841,436	4,731,379	6,442,219	591,580	25,839,376
Capitalized borrowing costs	20,429	1,510,096	96,080	-	-	1,626,605
Exploration advances	210,830	-	-	-	-	210,830
Cost recoveries	-	(28,911)	(61,423)	-	-	(90,334)
Disposals	-	-	-	-	(17,061)	(17,061)
As at September 30, 2011	16,349,349	103,609,043	6,725,752	7,830,903	850,804	135,365,851
Accumulated amortization						
As at January 1, 2011	-	-	-	(9,376)	(71,922)	(81,298)
Charge for the period	-	-	-	(91,957)	(66,164)	(158,121)
Disposals	-	-	-	-	10,445	10,445
As at September 30, 2011	-	-	-	(101,333)	(127,641)	(228,974)
Net book value,						
September 30, 2011	\$ 16,349,349	\$ 103,609,043	\$ 6,725,752	\$ 7,729,570	\$723,163	\$ 135,136,877
Year ended December 31, 2010						
Cost						
As at January 1, 2010	\$ 1,290,817	\$ 24,910,049	\$1,715,704	\$203,712	\$193,589	\$ 28,313,871
Additions	471,693	3,784,962	244,012	1,184,972	36,923	5,722,562
Capitalized interest	8,590	190,771	-	-	-	199,361
Exploration advances	30,082	-	-	-	-	30,082
As at December 31, 2010	1,801,182	28,885,782	1,959,716	1,388,684	230,512	34,265,876
Accumulated amortization						
As at January 1, 2010	-	-	-	(3,195)	(41,569)	(44,764)
Charge for the year	-	-	-	(6,181)	(30,353)	(36,534)
As at December 31, 2010	-	-	-	(9,376)	(71,922)	(81,298)
Net book value,						
December 31, 2010	\$ 1,801,182	\$ 28,885,782	\$1,959,716	\$1,379,308	\$ 158,590	\$ 34,184,578

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

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 (see below). 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. On September 29, 2009, the Company purchased the hydroelectric facility and capitalized related costs under buildings and infrastructure and construction in progress. Facility costs of \$554,826 considered to be pre-operative in nature were written off to operations in 2009.

Property Acquisition

Santander Project

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 had a remaining face value of \$5,893,400 representing approximately 75% of Santander’s debts after certain restructuring activities approved by its Creditors Committee on December 11, 2007, for total consideration of \$3,724,354, 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 period 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. 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 December 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 (postponed until June 2012 subsequent to the year-end). As at September 30, 2011, 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 \$1,488,120 (2010 - \$1,276,221) (Note 13(b)). The terms of the Addendum Agreement were approved by the Santander creditors at a creditors’ meeting held on September 29, 2009.

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

Property Acquisition (cont'd...)

Santander Project (cont'd...)

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, were valued at market price of \$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.

The Company also acquired six additional concessions surrounding the 66 mining concessions above.

Agreements with Glencore International AG's Peruvian subsidiary, Empresa Minera Los Quanales S.A. ("Glencore")

During the year ended December 31, 2010, the Company entered into agreements with Glencore to develop, construct and operate a mine at the Santander Project. The agreements are summarized as such:

Glencore will:

- (i) construct a mill and a flotation plant (together, the "Plant").
- (ii) operate the Plant and the mine for the Company on a contract basis.
- (iii) buy 100% of the Santander mine production at benchmark terms for the life of the mine.
- (iv) have the right of first refusal over the Santander Project's assets in the event that the Company intends to sell them, and an option to purchase 51% of the ownership of all Santander's assets, at fair market value, in the event that a change of Control is to take place. This agreement shall terminate on the later of (1) the fourth anniversary of the commencement of commercial production and (2) repayment of all obligations of the Company under the Concentration Plant Sale Agreement (described in the Company's obligations below) and the convertible debenture agreement (Note 13(a)).

The Company will:

- (i) retain 100% ownership of the Santander Project.
- (ii) have the facilities and capacity needed to provide electrical power and water resources for the Santander Project.
- (iii) provide a mining camp for Glencore staff.
- (iv) acquire the Plant and the associated infrastructure from Glencore, through the Concentration Plant Sale Agreement, over a period of four years following commercial concentrate production for US\$4,000,000 plus the cost of services, equipment and materials to be incurred during construction and commissioning. Payment for the Plant will be made in twelve monthly installments each year based upon the amount of concentrate treated by the Plant, notwithstanding that the total price shall be paid by the end of the fourth year. The Company has the right to prepay the entire outstanding balance subject to a 10% prepayment penalty.

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

Property Acquisition (cont'd...)

Ruttan, Manitoba

In January 2007, subsequently amended, Kria Inc entered into an agreement with Newdene Gold Inc. (“Newdene”) to assume all rights and obligations held by Newdene under an agreement with W.S. Ferreira Ltd. (“Ferreira”) to acquire an undivided 100% interest in the Ruttan Copper-Zinc property in the province of Manitoba. In order to acquire this 100% interest, Kria Inc is required to make the following cash payments and common share issuances, at the election of the optionor:

- (i) \$50,000 on or before January 29, 2009 (paid);
- (ii) \$200,000 or 200,000 common shares on or before July 31, 2010 (paid in cash);
- (iii) \$250,000 or 250,000 common shares on or before July 31, 2011; (paid in cash) and
- (iv) \$250,000 or 250,000 common shares on or before July 31, 2012*.

As well, Kria Inc is required to incur the following expenditures on the property:

- (v) \$250,000 by January 29, 2008 (spent); and
- (vi) an additional \$750,000 by January 29, 2009 (spent).

Kria Inc made a \$250,000 cash payment to Newdene for the transfer of the rights and obligations concerning the property. Newdene has also retained a 2% NSR, of which Kria Inc can purchase 50% for \$2,000,000 in cash or common shares at Newdene’s election.

Ferreira has retained a 2% NSR, of which 50% can be purchased by Kria Inc for \$1,500,000.

* As per the Plan of Arrangement filed on SEDAR, W.S. Ferreira will be issued Trevali common shares if required.

Bill Copper, Manitoba

In January 2007, subsequently amended, Kria Inc entered into an agreement with Newdene to acquire an undivided 100% interest in the Bill Copper property in the province of Manitoba. In order to acquire this 100% interest, Kria Inc was required to make the following cash payments and common share issuances:

- (i) \$10,000 (paid) and 100,000 common shares (issued, valued at \$100,000) of the Company on or before January 29, 2009; and
- (ii) \$20,000 (paid) and 100,000 common shares (issued, valued at \$24,000) of the Company on or before January 29, 2010.

Ferreira has retained a 2% NSR, of which 50% can be purchased by the Company for \$1,000,000.

Echimanish River, Manitoba

The Echimanish Mineral Exploration Lease lapsed on April 10, 2010 and all expenditures were written off by Kria, as at December 31, 2010. As there is no current agreement in place and given that the Company has no plan to perform further work on the property, it has dropped its interest on this property.

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

Property Acquisition (cont'd...)

Halfmile Lake/Stratmat Properties, New Brunswick

In July 2008, subsequently amended July 15, 2009, Kria Inc entered into an agreement with Xstrata Canada Corporation-Xstrata Zinc Canada Division (“Xstrata”) to purchase its Halfmile Lake and Stratmat Properties located near Bathurst, New Brunswick. In order to acquire this property, Kria Inc is required to make the following cash payments and issue the following Units (comprised of one share and a full or part warrant):

- (i) US\$1,000,000 (paid) and 3,500,000 Units on the Closing Date (issued in 2008, valued at \$3,500,000);
- (ii) US\$500,000 (paid) and \$2,500,000 worth of shares and warrants on or before August 17, 2009 (issued, 10,416,666 shares at \$0.24 per share based on the quoted closing market price on the day before issue and 5,208,333 warrants with a grant date fair value of \$885,000);
- (iii) US\$1,000,000 on or before January 16, 2010 (paid);
- (iv) US\$2,500,000 (paid) and \$1,000,000 worth of shares and warrants on or before July 21, 2010 (issued 10,000,000 shares at \$0.10 per share based on the price of shares in the most recent offering, per the terms of the agreement, and 5,000,000 warrants with a grant date fair value of \$355,300);
- (v) US\$8,000,000 on or before January 16, 2011 (paid); and
- (vi) US\$5,000,000 on or before the earlier of July 16, 2011 and the date that is immediately before a change in control of the Company (paid).

All Tranche Units are comprised of one Common Share and one half of a Warrant. The first Tranche units whole warrant entitles the holder to subscribe for one Common Share at a price of \$1.25 for a period of two years following the date of issuance. The second Tranche Units whole warrant entitles the holder to subscribe for one Common Share at a price of \$0.24 and shall extend for a period of four years from the issue date of August 17, 2009. The third Tranche Units whole Warrant entitles the holder to acquire one Common Share at a price of \$0.20 for a four year period from the date of issue of July 29, 2010.

The payments due to Xstrata are secured by the property. Xstrata has first right and option to purchase all or any portion of concentrates and other mineral products produced from the properties. Xstrata will retain a 2% Net Smelter Return (“NSR”) royalty on the properties and has the right to repurchase a 50% interest in the properties if a discovery of more than 20 million tonnes having an average grade of not less than 11% combined lead and zinc is made. A portion of the Stratmat property has a 2.5% NSR to Teck Cominco Limited and the Company will acquire only a 61.51% interest on certain claims in the north portion of the Halfmile Lake property due to underlying ownership rights. An additional final payment of US\$5,000,000 will be made on the fifth anniversary following the commencement of commercial production if zinc prices are greater than US\$1.50 per pound or US\$2,500,000 if zinc prices are between US\$1.25 and US\$1.50 per pound.

Huampar Property, Peru

The Company signed a memorandum of understanding with Nassau-registered Nueva Condor Inc. (“NCI”) wherein NCI has agreed to grant to the Company the exclusive option to acquire all the outstanding shares of its Peruvian subsidiary Nueva Condor S.A., 100% owner and holder of its Huampar mine and associated mining rights.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

Property Acquisition (cont'd...)

Huampar property, Peru (cont'd...)

The term of the Option will be 4 years and will have the following terms:

- (i) US\$50,000 on signing (paid).
- (ii) 1,000,000 common shares - issuable upon the Company exercising the option.
- (iii) 3% NSR of which 2% may be purchased in 1% tranches at any stage for payments of US\$1.5 and US\$2 million respectively.

Annual payments of US\$100,000 commencing on the first anniversary of the agreement and all payments will be deductible from any NSR payments made to NCI.

Asset restrictions and contractual commitments

The Company's assets are subject to certain restrictions on title, property, plant and equipment pledged as security for credit facility arrangements.

Contractual obligations related to equipment under finance leases are summarized in Note 12.

8. LONG-TERM RECEIVABLE

The long-term receivable is input tax credits ("IGV") incurred by Tingo in Peru and which may only be recoverable from taxes collected from the sale of hydroelectric power in the future.

	September 30, 2011	December 31, 2010
IGV	\$ 1,256,553	\$ 290,508

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2011	December 31, 2010
Trade payables	\$ 5,597,955	\$ 909,549
Accrued payroll and other	217,477	179,314
Accrued interest	75,277	28,197
Current portion of financial leases	59,320	-
	<u>\$ 5,950,029</u>	<u>\$1,117,060</u>

10. LOAN FACILITIES

(a) Loan with Cardero

On January 14, 2011, Kria entered into a term sheet with Cardero Resource Corp. (“Cardero”), whereby Cardero has agreed to lend Kria US\$8,000,000. The loan bears interest at a rate of 10% per annum, calculated monthly and repayable on or before January 14, 2012 (the “Maturity Date”). Kria has the option to extend the Maturity Date for an additional 180 days. In connection with the loan, Kria agreed to issue approximately 6,400,000 common share purchase warrants (the “Bonus Warrants”) to Cardero. Each Bonus Warrant will entitle the holder to acquire a common share of the Company at an exercise price of \$0.25 until January 14, 2012 or, in the event that the term of the loan is extended, any time up to the revised Maturity Date of the loan. Under the terms of the agreement the interest rate will be retroactively reduced to 8% per annum provided that the warrants are issued to Cardero before May 15, 2011.

On January 14, 2011, Kria issued 6,400,000 warrants to Cardero. The fair value of the warrants of \$1,131,500 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 96.0%, risk free interest rate of 1.76% and an expected life of one year.

The carrying value of the loan at September 30, 2011 is US\$8,455,890 (\$8,863,464) including accrued interest of US\$455,890 (\$445,663).

The Company and Cardero are related parties as a result of Cardero being a significant shareholder of the Company.

(b) Bridge Loan

On July 7, 2011, the Company completed a financing with Resources Income Fund, L.L. (“RIF”) structured as a US\$10,000,000 Bridge Loan facility maturing on the earlier of any raising of debt or equity or three month after closing. The Bridge Loan bore interest at a fixed rate of 12% per annum, prepaid in full upfront from the proceeds of the Bridge Loan. The loan was secured by the pledging of the shares of Kria. The Company paid US\$283,333 in interest, US\$150,000 in closing fees, US\$75,000 in legal fees and issued 500,000 common shares purchase warrants (“Warrants”), fair valued at \$205,985, exercisable at \$1.74 until July 7, 2012. The fair value of Warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.25%
Expected life of warrants	1 year
Annualized volatility	63.73%
Dividend rate	0.00%

Following the private placement that closed on July 7, 2011 (see Note 14), the Company repaid the Bridge Loan on July 18, 2011. Borrowing costs of \$711,715 were capitalized to the Santander and Halfmile projects.

11. SECURED DEBENTURE

On June 16, 2009, subsequently amended December 30, 2010, Kria entered into a \$600,000 secured debenture agreement (“Debenture”) with Aberdeen International Inc. (“Aberdeen”) available to Kria for draw-down in installments as requested by Kria. All principal amounts drawn down by Kria will mature and be due and payable on December 31, 2010 subject to interest at a rate of 10% per annum. In the event that the principal amount is not repaid on December 31, 2010, Kria shall pay an annualized penalty fee at the rate of 10% per annum under the terms of the amended agreement (dated December 30, 2010).

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

11. SECURED DEBENTURE (cont'd...)

In consideration for the provision to Kria of the facility represented by this debenture, Kria issued 50,000 share purchase warrants to Aberdeen, with each share purchase warrant being exercisable for one common share of Kria at a price which is equal to \$0.40 per share exercisable at any time prior to the date which is twelve (12) months from the date of the Debenture. The fair value of the warrants of \$33,030 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk - free interest rate of 1.33% and an expected life of one year. In addition, Kria shall pay Aberdeen a cash commission in the amount of \$25,000 (paid April 21, 2010). The Debenture was secured against the assets of Kria and ranks senior in priority to any other debts subsequently incurred and subordinate to the security interest held by Xstrata.

On August 16, 2010, Kria drew down \$500,000, and issued 200,000 share purchase warrants to Aberdeen, with each share purchase warrant being exercisable for one common share of Kria at a price of \$0.135 per share up to December 31, 2010. The fair value of the warrants of \$7,800 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 120.3%, risk free interest rate of 1.37% and an expected life of 0.38 years.

On May 18, 2011, the Company paid down \$150,000 to Aberdeen and the Company paid the outstanding balance on July 15, 2011 of \$380,384, including \$30,384 of interests and penalty.

Aberdeen and the Company have a director in common.

12. FINANCE LEASE

	September 30, 2011	December 31, 2010
Finance lease	\$ 173,018	-
Less: current portion (included in A/P)	59,320	-
	\$ 113,698	-

During the period, Kria Inc signed a financial lease for pieces of equipment used on the Halfmile mine development for a period of 36 months expiring September 1, 2014. The finance lease bears interest at 0% and Kria Inc has the obligation to purchase the equipment for \$1 at maturity. The lease is secured by the equipment. Monthly payments are fixed amounts representing principal and interests. Financial lease liabilities are payable as follow:

	2011 (remaining)	2012	2013	2014	Total
Future minimum lease payment	\$ 14,830	\$ 59,320	\$ 59,320	\$ 39,548	\$ 173,018
Interests	657	2,629	2,629	1,752	7,667
Present value of minimum lease payments	\$ 15,487	\$ 61,949	\$ 61,949	\$ 41,300	\$ 180,685

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For the finance lease the market rate of interest is determined by reference to similar lease agreements.

Property, plant and equipment as at September 30, 2011 includes \$177,962 (\$Nil – December 31, 2010) of costs of assets under financial leases and accumulated amortization for these assets of \$10,518 (\$Nil – December 31, 2010). The Company recognized \$219 of borrowing cost capitalized under Halfmile mine development related to financial lease obligation at September 30, 2011 (\$Nil – December 31, 2010).

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

13. LONG-TERM DEBT

	September 30, 2011	December 31, 2010
(a) Convertible debt:		
<p>On September 3, 2010, the Company closed the US\$2,000,000 convertible debenture contemplated in the memorandum of understanding dated May 15, 2009 between the Company and Glencore. An advance of US\$500,000 was drawn by the Company during the year ended December 31, 2009 with the balance of US\$1,500,000 received on September 3, 2010. The debenture is 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 the advance, and will bear interest at Libor (three-month) plus 2.5%, payable quarterly on arrears. Libor (three-month) rate on September 30, 2011 was 0.2457% (2010 – 0.29063%). Glencore has the option to convert the debenture loan, made up of principal and accrued interest payable, 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. Upon a change in control, all indebtedness and all accrued and unpaid interest, premiums and fees shall become immediately due and payable.</p> <p>At September 3, 2010, US\$2,000,000 was allocated to the liability portion of this compound financial instrument. The equity portion thereof was determined to be \$Nil at that date as the value of the conversion feature of the debt is insignificant due to the conversion price approximating the market price.</p>		
Balance of convertible debt	\$ 2,096,400	\$ 1,989,200
(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 7). 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>		
Accretion interest	1,276,221	1,209,435
Loss (Gain) on foreign exchange translation	138,519	171,801
Balance of obligation	73,380	(105,015)
Total long-term debt	\$ 3,584,520	\$ 3,265,421

14. CAPITAL STOCK AND SHARE BASED PAYMENT RESERVE

Authorized:

Unlimited number of common shares without par value.

a) During the period ended September 30, 2011, the Company:

- i) Issued 6,805,064 common shares on the exercise of share purchase warrants for total gross proceeds of \$7,989,267.
- ii) Issued 590,000 common shares on the exercise of shares purchase options for total gross proceeds of \$524,900.
- iii) On April 6, 2011, the Company completed brokered and non-brokered private placements consisting of 5,263,157 common shares at \$1.90 per common share for gross proceeds of \$10,000,000. The Company issued the following finder's fees:
 - i) 121,579 shares, with a market fair value of \$231,000, as a finder's fee;
 - ii) \$369,000 in cash; and
 - iii) 194,210 compensation warrants with a fair market value of \$182,670, exercisable at \$2.34 per common share for two years.
- iv) On April 7, 2011, the Company issued 20,992,250 common shares to acquire all of the issued and outstanding common shares of Kria (note 5). The acquisition was on the basis of 0.2 of a common share of the Company for each common share of Kria (the "Exchange Ratio"). Kria's outstanding stock options, warrants and bonus warrants were adjusted to be exercisable for the Company shares on the basis of the Exchange Ratio and granted:
 - i) 5,593,096 share purchase warrants exercisable at an average exercise price of \$1.06 for one common share with an average expected life of 1.62 years from the acquisition date of April 7, 2011; and
 - ii) 1,355,000 share purchase options at an average exercise price of \$1.45 for one common share with an average expected life of 2.05 years from the acquisition date of April 7, 2011.

Additionally, the Company paid in cash \$74,182 in share issue cost.

- v) On July 7, 2011, the Company completed non-brokered private placement consisting of 10,000,000 common shares at a price of \$1.50 per share for gross proceeds of \$15,000,000. The company paid and issued the following finders' fees:
 - i) \$268,125 in cash;
 - ii) 321,250 finders' shares, with a fair market value of \$526,850;
 - iii) 500,000 compensation warrants with a fair market value of \$236,056, exercisable at \$1.80 per common share expiring January 11, 2013.

Additionally, the Company paid in cash \$48,205 in share issue cost.

All of the securities issued in connection with the closing of this private placement, including the securities issued in payment of finders' fees, are subject to a hold period in Canada until November 12, 2011. Toqueville Asset Management L.P. ("Toqueville") acquired ownership of the entire 10,000,000 common share issued pursuant to this private placement.

- vi) On August 30, 2011, the Company completed a brokered private placement consisting of 7,873,059 common shares at a price of US\$1.32 (CAD\$1.30) per share for gross proceeds of US\$10,392,438 (CAD\$10,234,977). The Company paid a US\$738,766 (CAD\$723,473) share issued costs consisting of a 7% commission and legal fees and incurred \$58,521 in share issued cost.

- b) During the year ended December 31, 2010, the Company:
- i) Closed a non-brokered private placement consisting of 3,582,144 units at \$1.05 per unit for gross proceeds of \$3,761,251. 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 \$1.50 for a period of two years until September 1, 2012. The warrants carry a forced conversion feature such that should the common shares of the Company trade at or above \$1.80 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 638,494 common shares on the exercise of 299,375 share purchase warrants at \$1.15 per share and 339,119 shares purchase warrants at \$1.20 per share for total gross proceeds of \$751,224.
 - iii) Issued 150,000 common shares on the exercise of 40,000 shares purchase options at \$0.95 per share and 110,000 shares purchase options at \$0.72 per share for total gross proceeds of \$117,200.

As at September 30, 2011 and at December 31, 2010, there were 29,961 common shares of the Company held in escrow.

14. 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 ten years and vesting periods are determined by the Board of Directors.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

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

As at September 30, 2011 and December 31, 2010, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Expiry Date	September 30, 2011			December 31, 2010		
	Exercise Price	Number of Options	Exercisable	Exercise Price	Number of Options	Exercisable
January 7, 2011	\$0.72	-	-	\$0.72	245,000	245,000
May 11, 2011	\$1.05	-	-	\$1.05	220,000	220,000
December 11, 2011	\$0.30	225,000	225,000	-	-	-
December 16, 2011	\$0.95	1,215,000	1,215,000	\$0.95	1,235,000	1,235,000
April 9, 2012	\$14.50	1,000	1,000	-	-	-
April 9, 2012	\$1.25	20,000	20,000	-	-	-
April 12, 2012	\$1.25	70,000	70,000	-	-	-
April 28, 2012	\$1.25	300,000	300,000	\$1.25	300,000	300,000
July 1, 2012	\$1.25	200,000	200,000	-	-	-
July 16, 2012	\$1.25	40,000	40,000	-	-	-
August 2, 2012	\$1.25	20,000	20,000	-	-	-
August 9, 2012	\$1.25	100,000	100,000	-	-	-
September 6, 2012	\$10.00	1,500	1,500	-	-	-
October 6, 2012	\$1.37	700,000	700,000	\$1.37	700,000	700,000
December 4, 2012	\$1.00	2,765,000	2,765,000	\$1.00	2,800,000	2,800,000
December 5, 2012	\$10.00	3,000	3,000	-	-	-
January 9, 2013	\$5.00	15,000	15,000	-	-	-
January 15, 2013	\$5.00	20,000	20,000	-	-	-
May 26, 2013	\$5.00	80,000	80,000	-	-	-
May 31, 2013	\$1.60	2,090,000	2,015,000	-	-	-
December 21, 2014	\$1.20	379,500	379,500	-	-	-
September 16, 2015	\$0.98	40,000	40,000	-	-	-
January 17, 2016	\$1.95	10,000	10,000	-	-	-
February 1, 2016	\$2.00	60,000	60,000	-	-	-
		8,355,000	8,280,000		5,500,000	5,500,000

At September 30, 2011, the weighted average remaining contractual life of the stock options was 1.21 years (December 31, 2010 – 1.51) years.

Stock option transactions are as follows:

	September 30, 2011		December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	5,500,000	\$1.03	4,950,000	\$1.10
Business combination	1,355,000	\$1.45	-	-
Granted	2,090,000	\$1.60	1,000,000	\$0.92
Exercised	(590,000)	\$0.89	(150,000)	-
Expired	-	-	(300,000)	-
Balance, end of the period	8,355,000	\$1.26	5,500,000	\$1.03

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

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

Share-based compensation

During the nine months ended September 30, 2011, the Company granted 2,090,000 stock options with a fair value of \$1,384,842 calculated using the Black-Scholes option pricing model. Of this amount, \$1,359,116 was expensed during the period, the balance being the 75,000 stock options that were not vested at September 30, 2011. The share-based compensation was allocated \$506,892 to consulting, \$40,533 to investor relations, \$725,551 to mineral properties and \$86,140 to office and administrative.

The adjusted Kria stock options were recorded at a fair value of \$1,810,130 calculated using the Black-Scholes option pricing model. The share-based compensation was allocated to the investment in Kria.

During the year ended December 31, 2010, the Company granted 300,000 stock options with a fair value of \$165,030, and 700,000 stock options with a fair value of \$415,890, 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 \$425,241 to consulting, \$112,221 to investor relations and \$43,458 to mineral properties.

The fair value of stock options was estimated using the Black-Scholes option pricing model with the following weighted average calculations for the period ended September 30:

	2011	2010
Risk-free interest rate	1.66%	1.54%
Expected life of options/warrants	2 years	2 years
Annualized volatility	77.19%	78.13%
Dividend rate	0.00%	0.00%
Grant date fair value	\$ 0.90	\$ 0.58

Warrants

Warrants transactions are summarized as follows:

	Period Ended		Year Ended	
	September 30, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	9,331,430	\$1.22	8,178,852	\$1.16
Business combination	5,593,096	\$1.06	-	-
Issued	1,194,210	\$1.86	1,791,072	\$1.50
Exercised	(6,805,064)	\$1.17	(638,494)	\$1.18
Expired	-	-	-	-
Balance, end of period	9,313,672	\$1.24	9,331,430	\$1.22

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

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

Warrants (cont'd...)

At September 30, 2011, warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
735,294	\$1.00	October 8, 2011
143,630	\$1.00	December 18, 2011
2,800	\$1.00	January 13, 2012
1,280,000	\$1.25	January 14, 2012
500,000	\$1.74	July 7, 2012
2,125,000	\$1.00	July 29, 2012
1,791,072	\$1.50	September 1, 2012
500,000	\$1.80	January 11, 2013
194,210	\$2.34	April 6, 2013
1,041,666	\$1.00	August 17, 2013
1,000,000	\$1.00	July 29, 2014
<u>9,313,672</u>		

At December 31, 2010, warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
1,089,625	\$1.30	May 11, 2011
735,294	\$1.00	October 8, 2011
5,715,439	\$1.15	December 10, 2011
1,791,072	\$1.50	September 1, 2012
<u>9,331,430</u>		

The fair value of Kria and agent's warrants was estimated using the Black-Scholes option pricing model with the following weighted average calculations for the period ended September 30:

	2011	2010
Risk-free interest rate	1.55%	N/A
Expected life of options/warrants	1.6 years	N/A
Annualized volatility	74.57%	N/A
Dividend rate	0.00%	N/A
Grant date fair value	\$ 1.12	N/A

15. RELATED PARTY TRANSACTIONS AND BALANCES

During the nine months ended September 30, 2011, the Company entered into the following transactions with related parties:

Management compensation

- (a) Paid or accrued consulting fees of \$339,147 (2010 - \$222,593) to companies related to directors and officers.
- (b) Paid or accrued consulting and directors' fees of \$99,702 (2010 - \$211,877) to directors and an officer.

Transactions with other related parties

- (c) Paid or accrued exploration expenditures of \$156,709 (2010 - \$46,288) to Cardero Resource Corp. ("Cardero"), a company with significant influence by holding more than 10% of the outstanding shares of the Company.
- (d) Reimbursed office expenses of \$79,591 (2010 - \$6,555), travel expenses of \$183,975 (2010 - \$50,019), consulting expenses of \$12,480 (2010- \$Nil), regulatory expenses of \$7,785 (2010 - \$Nil) and investor relations expenses of \$6,235 (2010 - \$9,535) to Cardero.

Amounts due to related parties is comprised of \$114,245, net (2010 - \$187,852) due to Cardero for reimbursement of consulting, investor relations, travel, regulatory and deferred exploration expenses. And \$57,007 (2010 - \$Nil) due to companies related to a director and two officers for consulting expense.

The amount due to Cardero is unsecured, bears interest at a rate of 1% per annum and is due on demand. The amount due to a company related to a director and an officer is unsecured, bears no interest and is due on demand.

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.

Please also see Notes 10 and 11.

16. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates of 28% (December 31, 2010 - 28.5%) with the reported taxes is as follows for the nine month period ended September 30:

	2011	2010
Net loss for the period	\$ (5,409,100)	\$ (1,244,419)
Expected income tax recovery	\$ (1,514,548)	\$ (354,659)
Difference in foreign tax rates	(15,359)	-
Share issue costs	(3,736)	(14,225)
Share-based compensation and non-deductible write-off	375,781	-
Other temporary differences	(31,100)	18,628
Expired losses	-	9,459
Reduction in deferred income taxes resulting from statutory rate reduction	104,509	18,088
Change in valuation allowance	1,084,453	322,709
	<u>\$ -</u>	<u>\$ -</u>

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

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

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

	September 30, 2011	December 31, 2010
Deferred income tax assets		
Non-capital losses carried forward	\$ 8,329,939	\$ 1,767,107
Tax value of share issuance costs	46,400	77,859
Tax value in excess of book value of property plant and equipment	78,898	23,650
Valuation allowance	(2,993,294)	(1,868,616)
Net deferred income tax asset	\$ 5,461,943	\$ -
Deferred income tax liability		
Book value in excess of tax value of property and equipment	(9,337,118)	-
Deferred income tax liability	\$ (3,875,175)	\$ -

Deferred tax assets 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 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
2013	\$ -	\$ 875,736	\$ 875,736
2014	444,173	934,518	1,378,691
2015	769,913	767,929	1,537,842
2016	979,781	-	979,781
2027	1,015,605	-	1,015,605
2028	2,272,120	-	2,272,120
2029	2,272,308	-	2,272,308
2030	13,719,326	-	13,719,326
2031	8,754,277	-	8,754,277
	\$ 30,227,503	\$ 2,578,183	\$ 32,805,686

17. COMMITMENTS AND RESTRICTED CASH

The Company posted several letters of guarantee related to the grant of a transmission line at its Santander project and its hydroelectric facility by local government agencies; US\$1,011 (CAD\$1,048) related to funds for letters of credit issued in favor of diverse entities and providers of goods and services. An amount of US\$102,825 (CAD\$106,619) posted as a letter of guarantee related to the grant of a transmission line is due to be released in fiscal 2012 and all other amounts are due to be released in fiscal 2011.

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. As of September 30, 2011, Kria has a \$375,160 reclamation bond with the New Brunswick Minister of Natural Resources for the Halfmile mining lease.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

18. SEGMENTED INFORMATION

The Company's only business segment is the acquisition and exploration of mineral properties.

Geographic information is as follows:

	September 30, 2011			December 31, 2010		
	Canada	Peru	Total	Canada	Peru	Total
Cash	\$ 9,537,610	\$ 444,964	\$ 9,982,574	\$ 582,960	\$ 961,339	\$ 1,544,299
Restricted cash	-	107,667	107,667	-	2,419,411	2,419,411
Reclamation bond	375,160	-	375,160	-	-	-
Property, plant and equipment	82,076,252	53,060,625	135,136,877	13,862	34,170,716	34,184,578
Other assets	1,601,015	1,884,103	3,485,119	279,943	410,623	690,566
Total assets	\$ 93,590,037	\$ 55,497,360	\$ 149,087,397	\$ 876,765	\$ 37,962,089	\$ 38,838,854

19. CAPITAL MANAGEMENT

The Company manages its capital structure, being its shareholders' equity, 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 period ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

20. SUBSIDIARIES

Significant subsidiaries of Trevali Mining Corporation are as follows:

	Country of Incorporation	Principal Activity	Trevali's effective interest for 2011 and 2010
Kria Resources Ltd.	Canada	Holding Company	100% (2010-0%)
Kria Resources Inc.	Canada	Mining Company	100% (2010-0%)
Trevali Mining (New Brunswick) Ltd.	Canada	Holding Company	100% (2010-0%)
Trevali Peru S.A.C.	Peru	Mining company	100%
Trevali Renewable Energy Inc.	Peru	Holding company	100%
Compania Hidroelectrica Tingo S.A.C	Peru	Hydro Electric	99.9%

21. SUBSEQUENT EVENT

On November 10, 2011, the Company closed its previously announced underwritten financing of units (the "Units") and flow-through common shares ("FT Shares") (together, the "Offering"). The Units were priced at CAD\$0.90 and consist of one common share in the capital of the Company (a "Common Share") and one half of one common share purchase warrant (each whole purchase warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Common Share at a price of CADN\$1.10 for a period of two years. The FT Shares were priced at CAD\$1.00 per FT Share. The Offering was completed by a syndicate of underwriters led by Raymond James Ltd. and including M Partners Inc., GMP Securities L.P., Scotia Capital Inc., and Paradigm Capital Inc.

The final Offering size consisted of CAD\$10,000,000 in FT Shares and CAD\$20,070,000 in Units for total gross proceeds of CAD\$30,070,000. In parallel with this Offering, a private placement of CAD\$2,340,000 in Units is expected to close early next week with Kallpa Securities SAB of Lima, Peru ("Kallpa") to qualified South American investors (the "Peruvian Offering"). The total size of the Offering and Peruvian Offering is CAD\$32,410,000. A cash commission of 5.0% is payable on the proceeds of the Peruvian Offering to Kallpa as consideration for arranging the private placement.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's third condensed consolidated financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in Note 2 have been applied in preparing the condensed consolidated financial statements for the period ended September 30, 2011 and the comparative information presented in these financial statements for the nine month period ended September 30, 2010.

FIRST TIME ADOPTION OF IFRS (IFRS 1)

The Company's consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements that will be prepared in accordance with IFRS. The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 *First time adoption of International Financial Reporting Standards* (IFRS 1), the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit, with IFRS 1 providing for certain optional and mandatory exemptions to this principle.

Below are the adjustments necessary for the IFRS transition, including exemptions taken at the transition date:

(a) **Share-based payment transactions**

IFRS 1 allows that full retrospective application may be avoided for certain share-based instruments depending on the grant date, vesting terms and settlement of any real liabilities. A first-time adopter can elect to not apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the later of (a) the date of transition to IFRS and (b) January 1, 2005. The Company has elected this exemption and will apply IFRS 2 to only unvested stock options as at January 1, 2010 being the transition date.

(b) **Business Combinations**

IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* (IFRS 3) retrospectively to business combinations prior to the date of transition avoiding the requirement to restate prior business combinations. The Company has elected to only apply IFRS 3 to business combinations that occurred on or after January 1, 2010.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)

(c) **Consolidated and Separate Financial Statements**

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

(d) **Borrowing Costs**

Borrowing costs related to the acquisition, construction or production of qualifying assets must be capitalized under IAS 23(R). This is effective for fiscal years beginning on or after January 1, 2009, with earlier application permitted. IFRS 1 allows the effective date to be the date of transition to IFRS rather than January 1, 2009. The Company has elected this exemption and as such there is no difference between Canadian GAAP and IFRS on transition date.

Impact on Consolidated Financial Statements

	December 31, 2010	September 30, 2010
Adjustment to asset	\$199,361	\$156,042
Adjustment to deficit	(199,361)	(156,042)

(e) **Deferred income tax**

A deferred tax liability shall not be recognized upon the initial recognition of an asset or liability in a transaction which is not a business combination. To conform with IFRS, the Company had to reverse a previously booked liability.

Impact on Consolidated Financial Statements

	December 31, 2010	September 30, 2010
Adjustment to property, plant and equipment	(\$336,568)	(\$332,265)
Adjustment to deferred income taxes	336,568	332,265

(f) **Reclassification**

Under IFRS certain assets that were classified as mineral property interests and exploration advances were reclassified to property, plant and equipment and segregated into sub categories (see Note 7).

(g) **Correction**

The convertible debt with Glencore (see Note 13(a)) was initially valued by management with an equity component at September 30, 2010. During the December 31, 2010 year-end audit, the valuation was changed to allocate the whole amount to the debt and \$nil to the equity component. The reconciliation at September 30, 2010 reflects this correction.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive loss as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Consolidated Statements of Operations and Comprehensive Income for the dates noted below. The effects of transition from GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

- Consolidated Interim Statement of Financial Position Reconciliation – September 30, 2010.
- Consolidated Interim Statement of Operations and Comprehensive Loss Reconciliation for the three month period ended – September 30, 2010.
- Consolidated Interim Statement of Operations and Comprehensive Loss Reconciliation for the nine month period ended – September 30, 2010.
- Consolidated Statement of Financial Position Reconciliation – December 31, 2010
- Consolidated Statement of Operations and Comprehensive Income Reconciliation – December 31, 2010.

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

The September 30, 2010 Canadian GAAP condensed consolidated statement of financial position has been reconciled to IFRS as follows:

	September 30, 2010	Effect of Transition to IFRS	Ref	September 30, 2010
	CAN GAAP			IFRS
ASSETS				
Current				
Cash	\$ 5,328,455	\$ -		\$ 5,328,455
Accounts receivable	227,434	-		227,434
Prepaid expenses	65,921	-		65,921
	<u>5,621,810</u>	-		<u>5,621,810</u>
Long-term receivable	472,719	-		472,719
Property, plant and equipment	2,968,787	29,218,177	(f)	32,042,342
		(332,265)	(b)	
		156,042	(d)	
		31,601	(f)	
Exploration advances	31,601	(31,601)	(f)	-
Mineral property interests	29,218,177	(29,218,177)	(f)	-
	<u>\$ 38,313,094</u>	<u>\$ (176,223)</u>		<u>\$ 38,136,871</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	\$ 384,353	\$ -		\$ 384,353
Due to related parties	33,259	-		33,259
	<u>417,612</u>	-		<u>417,612</u>
Deferred income taxes	332,265	(332,265)	(b)	-
Long-term debt	2,850,762	571,877	(g)	3,422,639
	<u>3,600,639</u>	<u>239,612</u>		<u>3,840,251</u>
Shareholders' equity				
Capital stock	45,494,259	-		45,494,259
Share-based payment reserve	6,427,463	-		6,427,463
Equity component of convertible debt	571,877	(571,877)	(g)	-
Deficit	(17,781,144)	156,042	(d)	(17,625,102)
	<u>34,712,455</u>	<u>(415,835)</u>		<u>34,296,620</u>
	<u>\$ 38,313,094</u>	<u>\$ (176,223)</u>		<u>\$ 38,136,871</u>

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

The three months period ending September 30, 2010 Canadian GAAP condensed consolidated statement of operation and comprehensive loss has been reconciled to IFRS as follows:

	Three months ended September 30, 2010	Effect of Transition to IFRS	Ref	Three months ended September 30, 2010
	CAN GAAP			IFRS
EXPENSES				
Amortization	\$ 9,371	\$ -		\$ 9,371
Consulting	383,755	-		383,755
Interest	61,311	(61,311)	(d)	-
Investor relations	28,437	-		28,437
Office and administrative	65,565	-		65,565
Professional fees	180,909	-		180,909
Regulatory	16,215	-		16,215
Travel	16,946	-		16,946
Loss before other item	(762,509)	61,311		(701,198)
OTHER ITEM				
Foreign exchange gain	41,407	-		41,407
Net loss and comprehensive loss for the period	\$ (721,102)	\$ 61,311		\$ (659,791)
Basic and diluted loss per share	\$ (0.01)			\$ (0.01)
Weighted average number of shares outstanding	54,079,041			54,079,041

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

The nine months period ending September 30, 2010 Canadian GAAP condensed consolidated statement of operation and comprehensive loss has been reconciled to IFRS as follows:

	Nine months ended September 30, 2010	Effect of Transition to IFRS	Ref	Nine months ended September 30, 2010
	CAN GAAP			IFRS
EXPENSES				
Amortization	\$ 26,578	\$ -		\$ 26,578
Consulting	1,028,650	-		1,028,650
Interest	156,132	(156,042)	(d)	90
Investor relations	170,829	-		170,829
Office and administrative	214,419	-		214,419
Professional fees	413,680	-		413,680
Transfer agent and filing fees	46,307	-		46,307
Travel	83,125	-		83,125
Loss before other item	(2,139,720)	156,042		(1,983,678)
OTHER ITEM				
Foreign exchange gain	79,378	-		79,378
Net loss and comprehensive loss for the period	\$ (2,060,342)	\$ 156,042		\$ (1,904,300)
Basic and diluted loss per share	\$ (0.04)			\$ (0.04)
Weighted average number of shares outstanding	53,273,150			52,273,150

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

The December 31, 2010 Canadian GAAP condensed consolidated statement of financial position has been reconciled to IFRS as follows:

	December 31, 2010 CAN GAAP	Effect of Transition to IFRS	Ref	December 31, 2010 IFRS
ASSETS				
Current				
Cash	\$ 1,544,299	\$ -		\$ 1,544,299
Restricted cash	2,316,586	-		2,316,586
Accounts receivable	136,964	-		136,964
Prepaid and other expenses	263,094	-		263,094
	4,260,943	-		4,260,943
Restricted cash	102,825	-		102,825
Long-term receivable	290,508	-		290,508
Property, plant and equipment	3,834,182	30,454,739 (336,568) 199,361 32,864	(f) (b) (d) (f)	34,184,578
Exploration advances	32,864	(32,864)	(f)	-
Mineral property interests	30,454,739	(30,454,739)	(f)	-
	\$ 38,976,061	\$ (137,207)		\$ 38,838,854
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	\$ 1,117,060	\$ -		\$ 1,117,060
Due to related parties	187,782	-		187,782
	1,304,842	-		1,304,842
Deferred income taxes	336,568	(336,568)	(b)	-
Long-term debt	3,265,421	-		3,265,421
	4,906,831	(336,568)		4,570,263
Shareholders' equity				
Capital stock	46,334,531	-		46,334,531
Share-based payment reserve	6,785,949	-		6,785,949
Deficit	(19,051,250)	199,361	(d)	(18,851,889)
	34,069,230	199,361		34,268,591
	\$ 38,976,061	\$ (137,207)		\$ 38,838,854

TREVALI MINING CORPORATION (formerly Trevali Resources Corp.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended September 30, 2011 and 2010
 (Unaudited – Prepared by Management)
 (Expressed in Canadian Dollars)

The Canadian GAAP unaudited consolidated statement of operations and comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	December 31, 2010	Effect of Transition to IFRS	Ref	December 31, 2010
	CAN GAAP			IFRS
EXPENSES				
Amortization	\$ 36,437	\$ -		\$ 36,437
Consulting	1,754,795	-		1,754,795
Interest on long-term debt	199,451	(199,361)	(d)	90
Investor relations	329,906	-		329,906
Office and administrative	251,812	-		251,812
Professional fees	619,570	-		619,570
Transfer agent and filing fees	250,848	-		250,848
Travel	209,576	-		209,576
Loss before other item	(3,652,395)	(199,361)		(3,453,034)
OTHER ITEM				
Foreign exchange gain	321,947	-		321,947
Net loss and comprehensive loss for the year	\$ (3,330,448)	\$ 199,361		\$ (3,131,087)
Basic and diluted loss per share	\$ (0.06)			\$ (0.06)
Weighted average number of common shares outstanding	54,135,514			54,135,514