



TREVALI MINING CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars)

Years Ended December 31, 2017 and 2016

Corporate Head Office

1400 - 1199 West Hastings Street,
Vancouver, B.C.,
Canada
V6E 3T5
Tel: 604-488-1661

TREVALI MINING CORPORATION

(Expressed in thousands of United States Dollars)

December 31, 2017 and 2016

<u>INDEX</u>	<u>Page</u>
Management's Responsibility for Financial Reporting	
Independent Auditor's Report	
Consolidated Statements of Financial Position	1
Consolidated Statements of Operations	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Changes in Shareholders' Equity	5
Notes to the Consolidated Financial Statements	6-43

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Trevali Mining Corporation have been prepared by management in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on information currently available. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

Mark Cruise
President and Chief Executive Officer

Anna Ladd
Chief Financial Officer

Vancouver, British Columbia
March 12, 2018



March 13, 2018

Independent Auditor's Report

To the Shareholders of Trevali Mining Corporation

We have audited the accompanying consolidated financial statements of Trevali Mining Corporation, which comprise the consolidated statements of financial position as at December 31, 2017, December 31, 2016 and January 1, 2016 and the consolidated statements of operations, comprehensive income, cash flows, and changes in shareholders' equity for the years ended December 31, 2017 and December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806*



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trevali Mining Corporation as at December 31, 2017, December 31, 2016 and January 1, 2016 and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

(Signed) “PricewaterhouseCooper LLP”

Chartered Professional Accountants

TREVALI MINING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of United States Dollars)

	Notes	December 31, 2017	December 31, 2016	January 1, 2016
			(Restated – Note 29)	
ASSETS				
Current				
Cash and cash equivalents		\$ 94,135	\$ 11,136	\$ 4,578
Restricted cash	6	3,210	3,534	5,893
Accounts receivable	7	88,931	29,219	17,524
Prepaid expenses and other		5,981	2,886	2,454
Inventories	8	66,537	7,183	2,153
		258,794	53,958	32,602
Reclamation bonds and other	9	8,381	8,861	6,286
Long-term receivables	10	19,714	3,800	3,800
Exploration and evaluation assets	11	62,168	9,118	7,987
Property, plant and equipment	12	760,746	333,909	323,253
Deferred income tax	23	8,521	-	-
Goodwill	4	61,835	-	-
		\$ 1,180,159	\$ 409,646	373,928
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	13	\$ 69,630	\$ 17,146	\$ 18,104
Due to related parties	19	8,410	3,542	2,988
Derivative and flow-through share premiums		-	-	2,117
Current portion of finance leases	14	2,404	10,782	17
Current portion of long-term debt	15	34,000	14,690	2,569
		114,444	46,160	25,795
Finance leases	14	9,845	11,393	22,734
Long-term debt	15	114,308	42,944	58,077
Provision for environmental rehabilitation	16	47,690	33,468	33,310
Other provisions		2,877	-	-
Deferred income taxes	23	145,932	18,774	13,453
		435,096	152,739	153,369
Shareholders' equity				
Share capital	17	770,129	336,712	316,763
Share-based payment reserve	18	20,626	22,100	19,110
Deficit		(37,114)	(55,878)	(65,086)
Accumulated other comprehensive loss		(46,500)	(46,027)	(50,228)
		707,141	256,907	220,559
Non-controlling interests	27	37,922	-	-
		745,063	256,907	220,559
		\$ 1,180,159	\$ 409,646	\$ 373,928

Contingent Liabilities (Note 24) Subsequent Events (Note 28)

“Mr. Anton Drescher” (signed)

Mr. Anton Drescher
Director, Chair of the Audit Committee

“Mr. Russell Ball” (signed)

Mr. Russell Ball
Director

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

TREVALI MINING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in thousands of United States Dollars except for share and per share amounts)
Years Ended December 31, 2017 and 2016

	Notes	2017		2016	
				(Restated-Note 29)	
REVENUES	20	\$	330,533	\$	102,870
Mine operating expenses					
Production costs			185,688		50,317
Distribution			11,631		4,437
Royalty expense			6,595		1,510
Depreciation, depletion and amortization			40,532		18,234
			244,446		74,498
GROSS PROFIT			86,087		28,372
GENERAL AND ADMINISTRATIVE EXPENSES	21		7,590		4,825
Operating profit			78,497		23,547
OTHER ITEMS					
Gain (loss) on foreign exchange			(6,917)		102
Interest expense	22		(20,509)		(9,142)
Business acquisition costs	4		(12,619)		-
Other income			1,467		744
Loss on derivatives			-		(341)
Impairment of non-current assets			-		(487)
Income before taxes			39,919		14,423
Current tax expense	23		(7,878)		(778)
Deferred tax expense	23		(11,814)		(4,436)
Net income for the year		\$	20,227	\$	9,209
Attributable to:					
Owners of Trevali		\$	18,764	\$	9,209
Owners of non-controlling interests			1,463		-
		\$	20,227	\$	9,209
Basic and diluted income (loss) per share					
Basic		\$	0.03	\$	0.02
Diluted		\$	0.03	\$	0.02
Weighted average number of shares outstanding					
Basic			544,451,290		381,832,281
Diluted			556,093,243		385,093,824

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

TREVALI MINING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of United States Dollars except for share and per share amounts)
Years Ended December 31, 2017 and 2016

	Notes	2017	2016 (Restated-Note 29)
Net income for the year		\$ 20,227	\$ 9,209
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net income (loss)			
Translation adjustment		\$ -	\$ 4,201
Unrealized loss on available-for-sale investments		(473)	-
Other comprehensive income (loss) for the year		(473)	4,201
Total comprehensive income for the year		\$ 19,754	\$ 13,410
Other comprehensive income (loss) attributable to:			
Owners of Trevali		\$ (473)	\$ 4,201
Owners of non-controlling interests		-	-
		\$ (473)	\$ 4,201
Total comprehensive income (loss) attributable to:			
Owners of Trevali		\$ 18,291	\$ 13,410
Owners of non-controlling interests	27	1,463	-
		\$ 19,754	\$ 13,410

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

TREVALI MINING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of United States Dollars)
Years Ended December 31, 2017 and 2016

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		\$ 20,227	\$ 9,209
Items not affecting cash:			
Depreciation, depletion and amortization		40,532	18,234
Share-based payment expenses		6,995	1,481
Unrealized (gain) loss on foreign exchange		4,285	54
Accrued interest and accretion on finance leases		1,626	3,696
Accretion of provision for environmental rehabilitation	16	1,275	726
Accrued interest and accretion on long-term debt		9,382	4,385
Accrued interest on reclamation bond		(2)	(21)
Deferred tax expense		11,814	4,436
Impairment on non-current asset		-	1,778
Loss on derivatives		-	341
Changes in non-cash working capital items:			
Accounts receivable		(31,556)	(16,440)
Prepaid expenses and other		4,545	433
Inventories		48,849	(4,258)
Accounts payable and accrued liabilities		8,493	10,121
Due to related parties		(12,110)	354
Net cash flows provided by (used in) operating activities		114,355	34,529
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares units settled in cash		(4,044)	(75)
Shares issued for private placement	17	200,374	15,082
Stock options and warrants exercised		2,752	206
Long term debt, net of transaction fees		158,108	-
Share issuance costs on shares issued to Glencore	4	(155)	-
Repayment of long-term debt and revolving facility, net	15	(104,809)	(5,080)
Revolving facility	15	30,000	-
Interest payments	22	(7,463)	(8,064)
Payments on finance leases	14	(25,991)	(5,954)
Net cash flows provided by (used in) financing activities		248,772	(3,885)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Decrease in restricted cash		428	2,492
Decrease in value added taxes receivable		-	852
Decrease (increase) in reclamation bonds		1,372	(2,436)
Purchase of plant, equipment and exploration and evaluation assets		(59,102)	(25,066)
Purchase Rosh Pinah and Perkoa Mines, net	4	(222,710)	-
Net cash flows provided by (used in) investing activities		(280,012)	(24,158)
Effect of foreign exchange on cash		(116)	72
Increase in cash for the year		82,999	6,558
Cash, beginning of year		11,136	4,578
Cash, end of year		\$ 94,135	\$ 11,136

Supplemental Cash Flow Information (Note 26)

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

TREVALI MINING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of United States Dollars except for share amounts)
Years Ended December 31, 2017 and 2016

	Notes	Number of shares	Share Capital	Share-based payment reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total equity
Balance, December 31, 2016		401,606,025	\$ 336,712	\$ 22,100	\$ (55,878)	\$ (46,027)	\$ -	\$ 256,907
Share-based payment		-	-	7,201	-	-	-	7,201
Share units issued		2,197,604	2,250	(2,250)	-	-	-	-
Shares issued on the bought deal private placement of subscription receipts	17	220,455,000	211,029	-	-	-	-	211,029
Share issuance costs		-	(10,655)	-	-	-	-	(10,655)
Shares issued on the Glencore Acquisition	4	193,432,310	219,443	-	-	-	-	219,443
Share issuance costs		-	(155)	-	-	-	-	(155)
Deferred income taxes on share issuance costs		-	5,649	-	-	-	-	5,649
Exercise of options and warrants		7,274,121	2,752	-	-	-	-	2,752
Share units settled in cash		-	-	(4,044)	-	-	-	(4,044)
Bonus shares issued		760,200	723	-	-	-	-	723
Reallocation of share-based payment on exercise of options and warrants		-	2,381	(2,381)	-	-	-	-
Unrealized loss on investment		-	-	-	-	(473)	-	(473)
Acquisition of Rosh Pinah and Perkoa	4	-	-	-	-	-	36,459	36,459
Income attributed to the non-controlling interests	27	-	-	-	(1,463)	-	1,463	-
Net income for the year		-	-	-	20,227	-	-	20,227
Balance, December 31, 2017		825,725,260	\$ 770,129	\$ 20,626	\$ (37,114)	\$ (46,500)	\$ 37,922	\$ 745,063

	Notes	Number of shares	Share Capital	Share-based payment reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total equity
Balance, December 31, 2015		327,493,077	\$ 316,763	\$ 19,110	\$ (65,086)	\$ (50,228)	\$ -	\$ 220,559
Share-based payment		-	-	1,748	-	-	-	1,748
Private placement		61,349,450	16,167	-	-	-	-	16,167
Share issue costs		-	(1,085)	-	-	-	-	(1,085)
Exercise of options		473,785	206	-	-	-	-	206
Share units issued		1,227,523	536	(536)	-	-	-	-
Share units settled in cash		-	-	(76)	-	-	-	(76)
Bonus share units issued		1,237,427	426	-	-	-	-	426
Debt settlement		9,824,763	3,578	-	-	-	-	3,578
Reallocation from share-based payment		-	121	(121)	-	-	-	-
Reallocation of derivative liability		-	-	1,975	-	-	-	1,975
Unrealized gain on AFS investment		-	-	-	-	66	-	66
Translation adjustment		-	-	-	-	4,135	-	4,135
Net income for the year		-	-	-	9,208	-	-	9,208
Balance, December 31, 2016		401,606,025	\$ 336,712	\$ 22,100	\$ (55,878)	\$ (46,027)	\$ -	\$ 256,907

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

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Trevali Mining Corporation ("Trevali" or "Company") is a publicly listed company incorporated under the laws of British Columbia, Canada. The Company's common shares are listed under the symbol (i) "TV" on both the Toronto Stock Exchange and Bolsa de Valores de Lima in Peru, (ii) "TREV" on the OTCQX International Quotation System in the United States, and (iii) "4T1" on the Frankfurt Stock Exchange. The Company is a natural resource company engaged in the acquisition, exploration, development and production from mineral properties.

On August 31, 2017, Trevali acquired, directly and through its subsidiaries, an 80% interest in the Rosh Pinah mine in Namibia, a 90% interest in the Perkoa mine in Burkina Faso, an effective 39% interest in the Gergarub project in Namibia, and an option to acquire 100% interest in the Heath Steele project along with related exploration properties and assets in Canada from Glencore PLC and certain of its subsidiaries. The Rosh Pinah mine produces zinc and lead-silver concentrates and the Perkoa mine produces zinc concentrates.

Trevali operates, through its wholly-owned subsidiary Trevali Peru S.A.C., the Santander underground mine and metallurgical plant, located in Peru, producing zinc and lead-silver concentrates.

Trevali owns, through its wholly-owned subsidiaries, the Caribou mine and mill, the Halfmile mine and the Stratmat polymetallic deposit, all located in northern New Brunswick, Canada. On July 1, 2016, the Caribou mine commenced commercial production of zinc and lead-silver concentrates.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except for cash-settled share-based payments, awards, finance lease liability and the derivative liability which are measured at fair value, and mineralized stockpile and concentrate inventories which are measured at the lower of cost or net realizable value.

The accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries in preparing the consolidated financial statements for the years ended December 31, 2017 and 2016.

Approval of the financial statements

The consolidated financial statements of Trevali Mining Corporation for the years ended December 31, 2017 and 2016 were reviewed by the Audit Committee, approved and authorized for issue by the Board of Directors on March 12, 2018.

Change to the functional currency of Canadian operations and presentation currency

Prior to January 1, 2017, the functional currency of the Company's Canadian operations and corporate office, which is based in Canada, was the Canadian dollar. The functional currency of its Peruvian entities was the United States dollar. Per IAS 21, The Effects of Changes in Foreign Exchange Rates, an entity's functional currency should reflect the underlying transactions, events, and conditions relevant to the entity. Determination of functional currency involves certain judgments to determine the primary economic environment and this is re-evaluated for each new entity or if conditions change. Based on management's evaluation, taking into consideration the currency of the main sources of income from the sale of concentrate from the Caribou mine, sources of funding, as well as the currency in which cash and cash deposits for the Caribou mine, along with the corporate office, are maintained, management determined the United States dollar as the functional currency of the Canadian operations and corporate office.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

Change to the functional currency of Canadian operations and presentation currency (continued)

The change in functional currency has been accounted for prospectively, with no impact of this change on prior year comparative information.

With all Trevali's operations having the United States dollar as its functional currency, the Company decided to change its presentation currency from the Canadian dollar to the United States dollar. The change in the financial statement presentation currency is considered an accounting policy change and has been accounted for retrospectively (Note 29). From January 1, 2017, the US dollar presentation currency is consistent with the functional currency of the Company. For periods prior to January 1, 2017, the statements of financial position for each period presented have been translated from the Canadian dollar functional currency to the new US dollar presentation currency at the rate of exchange prevailing at the respective financial position date except for equity items, which have been translated at accumulated historical rates from the Company's date of incorporation. The statements of income and comprehensive income were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of transactions. Exchange differences arising in 2016 on translation from the Canadian dollar functional currency to the United States dollar presentation currency have been recognized in other comprehensive income and accumulated as a separate component of equity.

In prior reporting periods, the translation of the Company's Peruvian entities, which, as of January 1, 2013, had a United States dollar functional currency, into the Company's presentation currency of the Canadian dollar, gave rise to a translation adjustment which was recorded as a cumulative translation adjustment ("CTA"), a separate component of shareholders' equity. With the retrospective application of the change in presentation currency from the Canadian dollar to the US dollar, the CTA that was given rise to by the Peruvian entities since January 1, 2013, was eliminated. However, with the retrospective application of the change in presentation currency to the US dollar, the Company's Canadian operations and corporate office, and the Peruvian entities prior to January 1, 2013, all of which had a Canadian dollar functional currency until January 1, 2017, resulted in a CTA balance. The CTA balance will remain the same until the entities, which gave rise to the CTA balance, are disposed of, or retired.

As a result of the change to the US dollar as the functional currency of the Company's Canadian operations and corporate office, the Company's outstanding warrants would be considered a derivative liability since the obligation to issue shares is not fixed in the Company's current functional currency. The derivative warrant liability would be measured at fair value with changes recognized in the statement of income and comprehensive income. However, because the warrants were issued and valued prior to the change to the US dollar as the functional currency, and this change is accounted for prospectively, the Company has elected to continue to recognize the warrants as part of equity. All future warrants issued in Canadian dollars will be recorded as derivative liabilities.

Use of accounting estimates and judgments

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. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future years if the revision affects both current and future years.

These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgments

Significant assumptions and judgments about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to the following significant areas:

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

Use of accounting estimates and judgments (continued)

a) Business Combinations

Business combinations are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets.

The excess of (i) total consideration transferred by the Company, measured at fair value, including contingent consideration, and (ii) the non-controlling interests in the acquiree's, over the acquisition-date fair value of the net of the assets acquired and liabilities assumed, is recorded as goodwill. If the fair value attributable to the Company's share of the identifiable net assets exceed the cost of acquisition, the difference is recognized as a gain in the consolidated statement of operations. Provisional fair values allocated at the reporting date are finalized within one year of the acquisition date with retroactive restatement to the acquisition date as required.

Transaction costs, other than those associated with the issue of debt or equity securities, which the Company incurs in connection with a business combination, are expensed as incurred.

b) Goodwill

Goodwill that may arise on the Company's acquisitions includes but is not limited to: (i) the ability of the Company to capture certain synergies through management of the acquired operation within the Company; (ii) the potential to increase reserves and resources through exploration activities; and (iii) the requirement to record a deferred tax liability for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed.

Goodwill is not amortized. The Company performs an annual impairment test for goodwill and when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the carrying amount of a cash generating unit ("CGU") to which goodwill has been allocated exceeds the recoverable amount, an impairment loss is recognized for the amount in excess. The impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU to \$nil and then to the other assets of the CGU based on the relative carrying amounts of those assets. Impairment losses recognized for goodwill are not reversed in subsequent periods should its value recover.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs, or groups of CGUs, that are expected to benefit from the business combination in which the goodwill arose. If the composition of one or more CGUs to which goodwill has been allocated changes due to a reorganization, the goodwill is re-allocated to the units affected.

c) Review of asset carrying values and impairment assessment

Each reporting period, assets or cash generating units are evaluated to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, an impairment test is performed and if indicated, an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell or value in use. The recoverable amount of the Company's assets is calculated based on cash flow projections using several assumptions and estimates that represent management's best estimate of the range of economic conditions that will exist over the remaining useful lives of the assets. These calculations include key estimates such as future zinc, lead, copper and silver metal prices, recoverable resources and reserves, operating and capital costs which are subject to certain risk and uncertainties, inflation, discount rates, exchange rates, and estimated life-of-mines ranging from seven-to-twenty years. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flows to be generated from its projects.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

Use of accounting estimates and judgments (continued)

d) Deferred income taxes

The determination of the Company's tax expense or recovery for the year and deferred tax liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. Estimates of future taxable income are based on forecasted cash flows from future operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows are based on life of mine projections. To the extent that future cash flows from operations and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the balance sheet could be impacted. The Company is also subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences, where known, based on management's best estimate of the probable outcome of these matters.

e) Provision for environmental rehabilitation

The Company recognizes a provision for environmental rehabilitation when the obligation occurs. Provisions for environmental rehabilitation are periodically reviewed to reflect known developments, including updated cost estimates. The calculation of the present value of the necessary costs to settle the obligation in the future includes assumptions regarding the risk-free interest rate for discounting future cash flows, inflation, foreign exchange rates, and estimates of the underlying currencies in which the provisions will ultimately be settled. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current restoration standards and techniques.

f) Useful lives of mineral properties, plant and equipment

The estimate of the remaining lives of the Company's producing mineral properties is based on a combination of quantitative and qualitative factors including historical production and financial results, mineral resources reported under National Instrument 43-101 ("NI 43-101"), estimates of ore mineral feed production from areas not included in the NI 43-101 reports, and management's intent to operate the property. The estimated remaining lives of the producing mineral properties are used to calculate amortization and depletion expense, assess impairment charges and the carrying values of assets, and for forecasting the timing of the payment of reclamation and remediation costs.

There are numerous uncertainties inherent in the estimation of the remaining lives of the producing mineral properties, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, or production costs may change the economic status of the resources, estimates of production from areas not included in the NI 43-101 reports, and management's intent to operate the property, and may ultimately have a material impact on the estimated remaining lives of the properties.

g) Estimated Mineral Reserves and Resources

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated mineral recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at operating mine sites, in accounting for deferred stripping costs, in performing impairment testing and in forecasting the timing of the payment of decommissioning and restoration costs.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

Use of accounting estimates and judgments (continued)

g) Estimated Mineral Reserves and Resources (continued)

Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement and the carrying value of the decommissioning and restoration provision.

h) Functional currency

The functional currency of the Company is the United States dollar. Determination of the functional currency may involve certain judgments to determine the primary economic environment and this determination is re-evaluated for each new entity or if conditions change. Management has determined that the functional currency for the Canadian operations is the United States dollar - see "Change to the functional currency of Canadian operations and presentation currency" above. Management has determined that the functional currency for the operations based in Peru, Burkina Faso and Namibia is the United States dollar.

i) Achievement of production phase

Once a mine is ready for its intended use, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company reach this level. Management considers several factors including the completion of a reasonable period of commissioning and the achievement of consistent operating results based on the pre-determined level of design capacity.

The Company's Caribou Mine reached production phase on July 1, 2016.

j) Revenue recognition

Revenue arising from the sale of concentrate is recognized when the significant risks and rewards of ownership of the concentrate have been transferred. Transfers of risks and rewards vary depending on individual contract terms.

The sale of concentrate is "provisionally priced" as the sales prices are subject to final adjustment based on quoted market prices during the quotational period specified in the individual concentrate off-take contract. Revenue is recognized when the above criteria are met, using weight and assay results and forward market prices to estimate the fair value of the total consideration receivable.

The provisional sale contains an embedded derivative that is recorded in accounts receivable and marked-to-market each period until final settlement occurs. These sales adjustments (both gains and losses) are recorded in revenue in the consolidated income statements and in trade and other receivables on the consolidated balance sheets.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and the subsidiaries controlled by the Company from the date that control commenced until the date that control ceases. Control is achieved when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. In addition, the Company consolidates special purpose entities (“SPE”) when the substance of the relationship indicates that the SPE is controlled by the Company. The Company’s principal subsidiaries and geographic location as at December 31, 2017 are as follows:

Company Name		Country of Operation	Ownership Interest
Trevali Mining (New Brunswick) Ltd.	Caribou Mine	Canada	100%
Trevali Mining (Maritimes) Ltd.	Halfmile-Stratmat Deposit	Canada	100%
Trevali Renewable Energy Inc.	Tingo Receivable (Note 10)	Canada	100%
Trevali (Peru) S.A.C	Santander Mine	Peru	100%
Rosh Pinah Zinc Corporation (Proprietary) Ltd.	Rosh Pinah Mine	Namibia	80.09%
Nantou Mining Burkina Faso S.A.	Perkoa Mine	Burkina Faso	90%

All intercompany balances, transactions, income and expenses are eliminated upon consolidation.

Foreign Currency Translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of foreign currency transactions within entities are included in profit or loss.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of ninety days or less when acquired.

Inventories

Stockpile inventories represent mineralized material that has been mined and hauled to the surface from the underground mines. Costs include materials, labour and other direct costs and production overheads directly involved in the mining and production processes. This inventoried stockpile is ready for processing and is expected to be processed within twelve months. Concentrate inventory includes mineralized material that went through the milling process and mineralized material at the mine warehouse before transport for sale. Mineralized stockpile inventories and concentrate are carried at the lower of cost or net realizable value.

Net realizable value is the estimated selling price net of any estimated selling costs in the ordinary course of business. Write-downs of mineralized stockpiled inventories and concentrate, resulting from net realizable value impairments, are reported as an expense within cost of sales in the period of write-down or capitalized during the pre-production phase.

Supplies inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as the best available measure of net realizable value.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the Company does not retain any significant continuing managerial involvement with the concentrate, the amount of revenue can be measured reliably, recovery of the consideration is probable and the associated costs and possible return of goods can be estimated reliably. The transfer of risks and rewards varies depending on the individual concentrate off-take contract.

The sale of concentrate is “provisionally priced” as the sales prices are subject to final adjustment based on quoted market prices during the quotational period specified in the individual concentrate off-take contract. Revenue is recognized when the above criteria are met, using weight and assay results and forward market prices to estimate the fair value of the total consideration receivable. The provisional sale contains an embedded derivative that is recorded in accounts receivable and marked-to-market each period until final settlement occurs. These sales adjustments (both gains and losses) are recorded in revenue in the consolidated income statements and in trade and other receivables on the consolidated balance sheets.

Exploration and evaluation

Exploration and evaluation expenditures are capitalized once a license to explore an area has been secured.

Exploration expenditures relate 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 annually assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying value of capitalized exploration costs may not be recoverable.

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. 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 mine development 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 exploration and evaluation will be amortized on a unit-of-production basis over the life of the property, based on estimated economic reserves. If a project does not prove viable, all non-recoverable costs associated with the project, net of any impairment provisions, are written off.

Property, plant and equipment

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 their intended use are capitalized. Development expenditure is net of the proceeds of the sale of metals from mineralized stockpiles extracted during the development phase. Interest on borrowings related to the construction and development of assets is capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

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

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Cost is comprised of 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.

Expenditures on major maintenance or repairs includes the cost of replacement parts of assets and overhaul costs. Where an asset or part of an asset is replaced, and it is probable that further future economic benefit will flow to the Company, the expenditure is capitalized. Similarly, overhaul costs associated with major maintenance are capitalized when it is probable that future economic benefit will flow to the Company and any remaining costs of previous overhauls relating to the same asset are derecognized. All other expenditures are expensed as incurred.

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

Mine development	- Units-of-production over the life of mine
Mills	- Units-of-production over the life of mine
Assets under finance lease	- Units-of-production over the life of mine
Buildings and infrastructure	- 4-10% straight-line when in service (nil% for assets not yet in service)
Construction in progress	- Nil% as not yet in service
Office equipment	- 10% declining balance basis
Computer equipment	- 25% to 30% declining balance basis
Other Equipment	- 1-10 years straight-line

Impairment of non-current assets

Non-current assets are evaluated at each reporting date by management for indicators that the 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 cash generating unit ("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. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to dispose 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 the recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible 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 may affect the recoverable amount.

The Company uses its best efforts to fully understand all 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 resources and expected future production revenues and expense.

Reversal of impairment

An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 internal and third-party specialists. 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.

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.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the risk-adjusted expected cash flow at a pre-tax risk-free rate that reflects current market assessment of the time value of money. The unwinding of the discount is recognized as finance costs.

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 basis. 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 may also result from unused loss carry-forwards, resource related pools and other deductions. A deferred tax asset is recognized 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

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. Commissions paid to underwriters, and other related share issue costs, such as legal and auditing, on the issue of the Company's shares are charged directly to capital stock. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

Valuation of equity units issued in private placements

The Company has adopted the relative fair value method with respect to the measurement of shares and warrants issued as private placement units. The Company allocates the net proceeds, based on the relative fair values, to each component.

Flow-through shares

The Company will from time to time issue flow-through common shares to finance a significant portion of its exploration, evaluation and development programs. The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures, funded from the proceeds of the sale of such shares, being transferred to the purchasers of the shares. Under IFRS, on the issuance of such shares, the Company bifurcates the flow-through shares into (i) a flow-through share premium liability, equal to the estimated premium that investors pay for the flow-through feature, which is recognized as a liability and (ii) share capital. As the related exploration expenditures are incurred and renounced, the Company derecognizes the liability and recognizes a related income tax recovery. Proceeds received from

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares (continued):

the issuance of flow-through shares are restricted to Canadian resource property exploration expenditures within a two-year period.

The portion of premium related to expenses not incurred at the end of the Company's two-year period, is disclosed separately as flow-through premium share liability.

Bonus Shares, Restricted Share Units and Deferred Share Units

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of bonus shares and other equity-settled share-based payment arrangements, such as restricted share units ("RSUs") and deferred share units ("DSUs"), are recorded based on the estimated fair value at the grant date, including an estimate of the forfeiture rate, and the expense is recognized over the vesting period. For employees eligible for normal retirement prior to vesting, the expense is recognized over the period from the grant date to the date they are eligible for retirement.

Share-based payment expense relating to cash-settled awards, including deferred and restricted share units, is accrued over the vesting period of the units based on the quoted market value of the Company's shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

Earnings (loss) per share

Basic earnings (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.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Financial instruments

Financial assets and liabilities are initially recognized at fair value on settlement date and are subsequently measured based on their classification. Regular way purchases and sales of financial instruments are recognized at trade date.

The Company classifies its financial assets in the following categories: 'available-for-sale' ("AFS"), 'fair value through profit or loss', or 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired and their characteristics. Management determines the classification of financial assets at recognition.

a) Available-for-sale ("AFS")

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. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

a) Fair value through profit or loss

Derivative financial assets, including embedded derivatives included within accounts receivable are classified as fair value through profit or loss and accordingly are recorded on the statement of financial position at fair value. Unrealized gains and losses on embedded derivatives arising from the sale of concentrates or credit facility are recorded as part of other gains or losses in earnings. Fair values for derivative instruments are determined using valuation techniques and using assumptions based on market conditions existing at the statement of financial position date.

b) 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, restricted cash, and accounts receivable.

The Company classifies its financial liabilities as ‘other financial liabilities’ and ‘derivative financial liabilities’.

a) 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 or capitalized as borrowing costs over the period to maturity using the effective interest method.

Other financial liabilities include trade accounts payable and accrued liabilities, due to related parties, long-term debt, and finance leases and are classified as current or non-current based on their maturity date.

b) 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.

New accounting standards

The accounting policies adopted in the preparation of the Company’s consolidated financial statements have been prepared based on all IFRS and interpretations effective as at December 31, 2017.

The following new standards, amendments to standards and interpretations are not yet effective or have otherwise not yet been adopted by the Company:

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

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and was issued in July 2014. It replaces the guidance in International Accounting Standard (“IAS”) 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“OCI”) and fair value through profit and loss (“FVTPL”). There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated as FVTPL.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) IFRS 9 Financial Instruments (“IFRS 9”) (continued)

The standard is effective for accounting periods beginning on or after January 1, 2018. The Company completed a review of the new standard and did not identify any areas of significant difference. No significant changes are expected to be required in the Company’s process for managing and estimating provisions for credit loss on trade receivables. Accordingly, the Company does not expect IFRS 9 to have a material effect on its financial statements or a significant disclosure impact.

b) IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 was issued by the IASB in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 deals with revenue recognition and establishes a single five-step framework for the recognition of revenue when control of goods is transferred to, or services are performed, for the customer. The five steps include (1) identification of the contract/contracts with customers; (2) identification of the performance obligations under the contract; (3) determination of the transaction price; (4) allocation of the transaction price and (5) recognition of revenue when the performance obligation is satisfied. The standard also requires enhanced disclosures to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from the Company’s contracts with customers.

The new standard is effective for periods beginning on or after January 1, 2018. The Company has several existing revenue contracts at its four operating mines and has completed an evaluation of these contracts under the IFRS 15 framework. No areas of change have been identified that would require changes in the Company’s revenue recognition or measurement. IFRS 15 will require additional financial statement disclosures than currently required and the Company has the necessary systems and processes to facilitate these additional requirements.

c) IFRS 16 Leases (“IFRS 16”)

IFRS 16 was issued by the IASB in January 2016. IFRS 16 will result in all leases being recognized on the statement of financial position of lessees, except those that meet the limited exception criteria.

The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting IFRS 16 on the consolidated financial statements.

4. PURCHASE OF THE ROSH PINAH AND PERKOA MINES

On August 31, 2017, Trevali completed the acquisition (“Acquisition”) of a portfolio of zinc assets from Glencore PLC and certain of its subsidiaries (“Glencore”) including an 80% interest in the Rosh Pinah mine in Namibia (“Rosh Pinah”), a 90% interest in the Perkoa mine in Burkina Faso (“Perkoa”), an effective 39% interest in the Gergarub project in Namibia, and an option to acquire 100% interest in the Heath Steele project in Canada along with related exploration properties and other assets. The aggregate purchase price totaled \$464,659 consisting of \$245,216 cash and the issuance of 193,432,310 Trevali common shares to Glencore totaling \$219,443 (\$219,288 net of fees) based on the closing share price of C\$1.43 on August 31, 2017. After the completion of this transaction, Glencore became a 25.6% shareholder of Trevali.

The cash consideration of the Acquisition was funded through a combination of: (i) the issuance of 220,455,000 Trevali common shares, from a bought deal private placement of subscription receipts completed in March 2017, at a price of C\$1.20 per common share for gross proceeds of C\$264,546 (\$211,029); and, (ii) advances under a \$160,000 senior secured term loan and a \$30,000 senior secured revolving working capital loan (a portion of these proceeds was also used to retire existing Trevali long-term debt (see Notes 14 and 15)).

This acquisition is a business combination and has been accounted for in accordance with the IFRS 3 measurement and recognition provisions. IFRS 3 requires the purchase consideration to be allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

4. PURCHASE OF THE ROSH PINAH AND PERKOA MINES (continued)

The purchase price has been allocated to the underlying assets acquired and liabilities assumed based upon estimated fair values at the date of acquisition. Fair values have been determined based on third party appraisals, discounted cash flow models, and quoted market prices, as deemed appropriate. Acquisition costs, such as advisory, legal and other professional fees, totalling \$12,619 were expensed during the year ended December 31, 2017.

The allocation of the purchase price includes \$61,835 of goodwill relating to the recognition of deferred income tax liabilities on the Acquisition. The Company is required to record a deferred tax liability for the difference between the assigned value and the tax bases of assets acquired and liabilities assumed. None of the goodwill is deductible for tax purposes.

The Company estimates that had these assets been acquired at the beginning of the year, revenues would have been approximately \$488,599 and earnings before tax approximately \$67,715.

The following table summarizes the fair value of the consideration paid and the estimates of the fair values of assets acquired and liabilities assumed from Glencore as of August 31, 2017.

Purchase Price:	
Share Consideration - 193,432,310 common shares issued	\$ 219,443
Cash Consideration	245,216
	<u>\$ 464,659</u>
Fair values of assets acquired and liabilities assumed:	
Cash and cash equivalents	\$ 22,506
Reclamation bond	544
Trade and other receivables	43,594
Prepays and other	7,986
Inventory	98,580
Exploration and evaluation assets	50,617
Property, plant and equipment	405,920
Goodwill	61,835
Trade and other payables	(46,056)
Payable to Related Parties	(18,476)
Provisions for environmental liabilities	(10,851)
Other long-term provisions	(2,625)
Non-controlling interests	(36,459)
Deferred income tax liabilities	(112,456)
	<u>\$ 464,659</u>

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities consist of cash and cash equivalents, restricted cash, accounts receivable, reclamation bonds and other, long-term receivable, accounts payable and accrued liabilities, due to related parties, finance leases and long-term debt.

Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an active market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The comparison of carrying and fair values of each classification of financial instrument as at December 31, 2017 and December 31, 2016.

	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents (a)	\$ 94,135	\$ 94,135	\$ 11,136	\$ 11,136
Restricted cash (a)	\$ 3,210	\$ 3,210	\$ 3,534	\$ 3,534
Accounts receivable (a)	\$ 88,931	\$ 88,931	\$ 24,042	\$ 24,042
Reclamation bonds and other (b)	\$ 8,381	\$ 8,381	\$ 8,861	\$ 8,861
Long-term receivables	\$ 19,714	n/a	\$ 3,800	n/a
Financial liabilities				
Accounts payable and accrued liabilities (a)	\$ 69,630	\$ 69,630	\$ 17,146	\$ 17,146
Due to related parties (a)	\$ 8,410	\$ 8,410	\$ 3,542	\$ 3,542
Finance leases (c)	\$ 12,249	\$ 12,249	\$ 22,175	\$ 22,175
Revolving and Term Credit Facilities	\$ 34,000	n/a	\$ -	\$ -
Term Facility	\$ 114,308	n/a	\$ -	\$ -
Santander's creditors obligation	\$ -	\$ -	\$ 263	\$ 263
Working capital facility	\$ -	-	\$ 14,802	n/a
Senior Secured Notes	\$ -	-	\$ 43,041	n/a

- The fair values for short-term financial assets and liabilities, which include cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, and due to related parties, approximate carrying values due to the immediate or short-term maturities of these financial instruments.
- The reclamation bonds are interest bearing and the carrying values represent fair values.
- The carrying value of the finance leases approximates fair value as it is calculated based on the present value of the future principal cash flows, discounted at the market rate of interest at the reporting dates. For the finance leases, the market rate of interest is determined by reference to similar lease agreements.

Capital risk management

The Company capital risk management objectives include continuing to operate as a going concern while maximizing the return to shareholders. The selling price of zinc and lead-silver concentrates and minimizing production costs and capital expenditures are key factors in helping the Company reach its capital risk management objectives. The capital structure of the Company includes shareholders' equity and debt.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Credit risk

As at December 31, 2017, the Company's maximum exposure to credit risk was the book value of cash and cash equivalents, restricted cash, accounts receivable, value added and other taxes receivable and an investment available-for-sale. The Company limits its credit exposure on cash and cash equivalents and restricted cash by holding its deposits mainly with strong investment-grade ratings by a primary ratings agency. All the Company's trade accounts receivables are with Glencore – a related party (Note 19).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they fall due. The Company manages its liquidity risk through its budgeting and forecasting process. Budgets are prepared annually, and forecasts are prepared and reviewed on a regular basis, to help determine the funding requirements to support the Company's current operations and expansion and development plans and by managing its capital structure as described above.

At December 31, 2017, the Company had cash and cash equivalents totaling \$94,135 (2016 - \$11,136) and a working capital of \$144,350 (2016 - \$7,798). For the year ended December 31, 2017, cash generated by operating activities totalled \$114,355. In addition, the Company had a \$27,876 revolving credit facility available for draw-down (Note 15).

As at December 31, 2017, the Company's significant commitments include the Revolving and Term Credit Facilities totaling \$152,000 (Note 15), the finance leases (Note 14), the environmental rehabilitation obligations (Note 16), current accounts payable and accrued liabilities (Note 13) and due to related parties (Note 19).

Market risk

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

a) Commodity price risk

The Company is exposed to commodity price risk arising from changes to the market prices for zinc, lead and silver between the time of the provisional invoicing of concentrates to the time of final price settlement. The Company is exposed to this risk during the quotational periods ranging from one to five months, depending on the terms and conditions of the various concentrate off-take contracts. Management estimates that a 5% decrease in the market prices for zinc, lead and silver would reduce the provisionally priced mark-to-market revenues and related accounts receivable by \$5,414 as of December 31, 2017.

b) Interest rate risk

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company's cash consists primarily of cash held in bank accounts and short-term deposits. 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 December 31, 2017 and 2016.

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. Based on the amount owing at December 31, 2017, and assuming that all other variables remain constant, a 1% change in the LIBOR rate would result in an increase (decrease) of \$1,520 in the interest expense accrued by the Company per annum.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)**Market risk (continued)**

c) 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 United States dollar including the Canadian dollar, Peruvian soles, the Western African franc and the Namibian dollar. The Company had net monetary assets totalling \$6,618 denominated in Canadian dollars, \$9,264 denominated in Peruvian soles, and \$18,092 in West African franc and net monetary liabilities totalling \$2,723 in Namibian dollars as of December 31, 2017. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in the Canadian dollar by 9% would increase or decrease net income (loss) by \$4,461, in the Peruvian sole by 9% would increase or decrease net income (loss) by \$1,075, in the West African francs by 9% would increase or decrease net income (loss) by \$5,781 and in the Namibian dollar by 9% would increase or decrease net income (loss) by \$2,281 for the year ended December 31, 2017.

6. RESTRICTED CASH AND COMMITMENTS

Trevali (Peru) S.A.C receives IGV from its sales of concentrate with 10% (2016-10%) of the amount deposited directly by the vendor into a restricted account. Trevali (Peru) S.A.C. applies every quarter to the Peruvian tax authority to release the IGV from the restricted account. As of December 31, 2017, the balance held in the IGV restricted account totaled \$3,210 (December 31, 2016 - \$3,505).

Restricted cash in Canada includes miscellaneous deposits of \$nil (December 31, 2016 - \$29).

7. ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Trade receivables – Glencore (Note 19)	\$ 70,360	\$ 22,552
Burkina Faso VAT credits	5,000	-
Peru IGV sales tax credits	5,447	4,978
Namibia VAT credits	5,052	-
Namibia income taxes receivable	2,131	-
Other	941	1,689
	\$ 88,931	\$ 29,219

8. INVENTORIES

	December 31, 2017	December 31, 2016
Mineralized stockpiles	\$ 8,209	\$ 2,010
Concentrates	34,473	3,186
Materials and supplies	23,855	1,987
	\$ 66,537	\$ 7,183

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

9. RECLAMATION BONDS AND OTHER

	December 31, 2017	December 31, 2016
Halfmile Project, New Brunswick, Canada	\$ 513	\$ 477
Caribou Mine, New Brunswick, Canada	4,125	3,828
Caribou Mine-Water Treatment, New Brunswick, Canada	1,833	-
Santander Mine, Peru	85	4,556
Perkoa Mine, Burkina Faso	1,825	-
	\$ 8,381	\$ 8,861

The Company has cash deposits with the Province of New Brunswick, Canada along with two related 'letters of credit' totalling \$2,214 (CAD\$2,664) assigned to the Province of New Brunswick, Canada as security for reclamation and environmental obligations associated with its Halfmile project and its Caribou Mine. In addition, the Caribou Mine is required to fund a portion of the post closure long-term water treatment program under the terms of the '2013 Limited Environmental Liability Agreement'. This agreement requires annual cash payments of CAD\$2,300 up to a maximum CAD\$12,800 held in an interest-bearing trust account.

The Company has cash deposits with the Government of Peru as security for reclamation and environmental obligations associated with its Santander Mine. During February 2017, the Santander Mine reclamation deposit was released in exchange for a \$4,471 performance guarantee with the Peruvian Ministry of Energy and Mines. This performance guarantee is an insurance surety bond and must be renewed on an annual basis.

The Company has cash deposits with the Government of Burkina Faso as security for reclamation and environmental obligations associated with its Perkoa Mine.

10. LONG-TERM RECEIVABLES

	December 31, 2017	December 31, 2016
Burkina Faso VAT credits	\$ 15,914	\$ -
Receivable from sale of Tingo	3,800	3,800
	\$ 19,714	\$ 3,800

During the year ended December 31, 2014, the Company sold its 100% interest in Compania Hidroelectrica Tingo S.A.C. ("Tingo") for \$13,500. As at December 31 2017, the Company is owed \$3,800, which is held in escrow, and is scheduled to be released as follows:

2019	\$	800
2020	\$	500
2021	\$	800
2022	\$	800
2023	\$	900
	\$	3,800

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

11. EXPLORATION AND EVALUATION ASSETS

	Gegarub Namibia	Heath Steele Option Canada	Stratmat and Other Canada and Burkina Faso	Total
Balance at December 31, 2016	\$ -	\$ -	\$ 9,118	\$ 9,118
Business acquisition (Note 4)	37,213	13,228	176	50,617
Net additions	-	-	2,433	2,433
Balance at December 31, 2017	\$ 37,213	\$ 13,228	\$ 11,727	\$ 62,168

	Stratmat Canada	Huampar Peru	Other Canada	Total
Balance at December 31, 2015	\$ 6,700	\$ 361	\$ 926	\$ 7,987
Additions	2,383	-	2	2,385
Impairment	-	-	(893)	(893)
Disposal	-	(346)	-	(346)
Translation adjustment	-	(15)	-	(15)
Balance at December 31, 2016	\$ 9,083	\$ -	\$ 35	\$ 9,118

Gegarub, Namibia and Heath Steele Option, New Brunswick, Canada

On August 31, 2017, the Company acquired an effective 39% interest in the Gegarub project, the Heath Steele Option and various exploration properties in Burkina Faso as part of its purchase of the Rosh Pinah and Perkoa mines (Note 4).

Halfmile and Stratmat Properties, New Brunswick, Canada

During April 2011, the Company acquired the Halfmile, Stratmat and Ruttan properties. Glencore has the first right and option to purchase all or any portion of concentrates and other mineral products produced from these properties. Trevali acquired only a 61.51% interest on certain claims in the north portion of the Halfmile Lake property due to underlying ownership rights. On the fifth anniversary following the commencement of the production phase, Trevali will be required to make an additional final payment totalling \$5,000 if the zinc prices are greater than \$1.50 per pound (or an additional final payment totalling \$2,500 if the zinc prices are between \$1.25 and \$1.50 per pound). Halfmile is a fully permitted underground mining operation that underwent initial trial mining and production from the Upper Zone of the deposit from January 2012 to July 2012. Mineralized material was transported to and toll-processed through the Brunswick 12 mill facility, producing good quality, saleable zinc, lead-silver and copper-gold metal concentrates. Glencore retains a 2% 'net smelter royalty' on these properties and has the right to purchase 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. Teck Cominco Limited has a 2.5% 'net smelter royalty' on a portion of the Stratmat property.

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

12. PROPERTY, PLANT AND EQUIPMENT

	Mine development	Construction in progress	Buildings and infrastructure	Equipment and other	Assets under finance lease	Total
Cost at December 31, 2016	\$ 284,139	\$ 109	\$ 42,739	\$ 25,525	\$ 25,574	\$ 378,086
Business acquisition (Note 4)	218,834	4,515	157,649	23,902	1,020	405,920
Additions	36,090	6,375	5,013	6,681	15,821	69,980
Change in PER (Note 16)	608	-	-	-	-	608
Reclassification	(1,705)	1,025	29,743	(1,203)	(27,860)	-
Disposals	-	-	-	(152)	-	(152)
Change in estimate on assets under finance lease	-	-	-	-	1,233	1,233
As at December 31, 2017	537,966	12,024	235,144	54,753	15,788	855,675
Accumulated amortization at December 31, 2016	(23,401)	-	(9,448)	(4,015)	(7,313)	(44,177)
Charge for the year	(22,438)	-	(17,711)	(7,117)	(3,434)	(50,700)
Reclassification	-	-	(9,926)	-	9,926	-
Disposals	(51)	-	-	(1)	-	(52)
As at December 31, 2017	(45,890)	-	(37,085)	(11,133)	(821)	(94,929)
Net book value, December 31, 2017	\$ 492,076	\$ 12,024	\$ 198,059	\$ 43,620	\$ 14,967	\$ 760,746

	Mine development	Construction in progress	Buildings and infrastructure	Equipment and other	Assets under finance lease	Total
Cost at December 31, 2015	\$ 256,712	\$ 5,058	\$ 42,039	\$ 20,589	\$ 22,808	\$ 347,206
Additions	32,963	176	9,973	380	65	43,557
Reclassification	-	(5,351)	(243)	5,351	113	(130)
Impairment	-	-	-	(1,308)	-	(1,308)
Change in estimate on assets under finance lease	-	-	-	-	2,500	2,500
Capitalized borrowing costs	3,422	-	-	-	-	3,422
Pre-production costs, net of revenues	(12,830)	-	(9,922)	-	-	(22,752)
Change in provision for environmental rehabilitation	(1,266)	-	-	-	-	(1,266)
Translation adjustment	5,138	226	892	513	88	6,857
As at December 31, 2016	284,139	109	42,739	25,525	25,574	378,086
Accumulated amortization as at December 31, 2015	(11,572)	-	(5,886)	(2,335)	(4,154)	(23,947)
Charge for the year	(11,631)	-	(3,428)	(1,630)	(3,073)	(19,762)
Translation adjustment	(198)	-	(134)	(50)	(86)	(468)
As at December 31, 2016	(23,401)	-	(9,448)	(4,015)	(7,313)	(44,177)
Net book value, December 31, 2016	\$ 260,738	\$ 109	\$ 33,291	\$ 21,510	\$ 18,261	\$ 333,909

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Santander Project, Peru

During 2007 and 2008, Trevali acquired notes due from 'Compania Minerales Santander Inc. S.A.C.' ("Santander") from Santander's third-party creditors. At the time, Santander was an insolvent Peruvian company controlled by its creditors under applicable Peruvian insolvency regulations. Trevali acquired these notes to gain assurance that Trevali would be assigned Santander's mineral property interests. Santander is a 'special purpose entity' controlled by the Trevali by virtue of Trevali's acquisition of the majority of Santander's notes payable.

On December 11, 2007, Trevali (Peru) S.A.C was granted all of Santander's interest in the Santander Project ("Santander Mining Lease") for a period of 50 years (with an automatic 50-year extension) including the rights to engage in exploration, development, processing and commercialization activities in respect of the Santander Property. The consideration payable by Trevali to Santander is a 3.5% net smelter royalty. In addition, Trevali (Peru) S.A.C. acquired from Santander a long-term lease of the Tingo Power Station which the Company sold in 2014 (Note 10).

In July 2009, the Company entered into an addendum agreement to the Santander Mining Lease, pursuant to which, Santander agreed to suspend the \$100 minimum monthly net smelter royalty payment until such time as the Company had generated \$51,000 of revenue (this occurred during 2014). As consideration for the suspension of the minimum monthly payment, the Company agreed to advance to Santander, by way of loan, all necessary funds to cover the ongoing costs of Santander's bankruptcy proceedings estimated to be \$250 per annum. In addition, the Company was granted the exclusive right, up to September 30, 2016, to acquire the Santander mineral concessions (currently under the Santander Mining Lease) for a payment equal to the balance of the Santander liabilities outstanding on the date the Company exercises the right plus \$300 payable to the third-party holders of the Santander liabilities. In June 2016, Santander's Board of Creditors approved the restructured schedule of payments in which all third-party creditors will be paid by the end of December 2017, meaning Trevali will be the sole creditor and payments from Santander to Trevali will be completed in June 2022. As of December 31, 2017, the outstanding third-party liabilities of Santander were \$nil (2016 - \$263).

During the year, the Company paid \$523 (2016 - \$104) to third party creditors bringing the ownership of 'Compania Minerales Santander Inc. S.A.C.' as of December 31, 2017 to 100% (2016 - 93%).

During the years ended December 31, 2017 and 2016, royalties totalling approximately \$35 (2016 - \$262) were paid to the third-party note holders. The Company's share of the royalty paid to Santander is eliminated upon consolidation.

During the year ended December 31, 2010, the Company entered into agreements with Glencore International AG's Peruvian subsidiary, Empresa Minera Los Quenuales S.A. ("Glencore") to jointly develop, construct and operate a mine at the Santander Project. Glencore is considered a related party of the Company given the fact that a director of the Company is also a member of key management at Glencore.

As at December 31, 2017, Glencore (a) operates the plant and the mine on behalf of the Company on a contract basis; (b) purchases all the Santander Mine production at benchmark international market terms for the life of the mine; and (c) has a 'right of first refusal' over the Santander Project's assets in the event that the Company intends to sell them, and has an 'option to purchase a 51% ownership of the Santander assets', at fair market value, in the event of a change of control. This right of first refusal and option to purchase shall terminate on the later of: 1) repayment of all obligations of the Company under the Concentration Plant Sale Agreement and 2) the fourth anniversary of the commencement of production phase (January 1, 2018). During August 2017, the Company re-financed its Santander Mine operations and retired both the Concentration Plant lease (Note 14) and Working Capital Facility (Note 15). The fourth anniversary of the commencement of commercial production occurred on January 1, 2018 and therefore both the 'right of first refusal' and 'option to purchase a 51% ownership of the Santander assets' have been terminated.

As at December 31, 2017, the Company has a 100% ownership in the Santander Mining Concession Rights and owns the Santander Mine and associated infrastructure as acquired from Glencore, through the Concentration Plant Sale Agreement.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

12. PROPERTY, PLANT AND EQUIPMENT (continued)**Caribou Property, New Brunswick, Canada**

On November 2, 2012, the Company acquired all the mining rights to the Caribou mine and mill complex through its acquisition of Maple Minerals Corporation.

The Caribou mine is subject to a 10% net profit interest (“NPI”) royalty held by an unrelated third-party. No payments have been made, or accrued for, under this NPI royalty during the years ended December 31, 2017 and 2016 as royalty payments do not accrue to the NPI holder until the Caribou Mine has earned a cumulative net profit as defined in the agreement. As of December 31, 2017, the Caribou Mine had a significant net cumulative loss.

Rosh Pinah, Namibia

On August 31, 2017, the Company acquired an 80.08% interest in the Rosh Pinah Mine in Namibia (Note 4).

Perkoa, Burkina Faso

On August 31, 2017, the Company acquired a 90% interest in the Perkoa Mine in Burkina Faso (Note 4). The local government applies a 3% ‘net smelter return’ royalty and a 1% ‘community development’ royalty on all exports (see Note 13).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Trade	\$ 45,519	\$ 11,579
Accrued payroll and other	14,760	4,602
Corporate income taxes	1,994	-
Burkina Faso royalty payable	1,756	-
Burkina Faso community payable	2,997	-
Interest payable	73	472
Other	2,531	493
	\$ 69,630	\$ 17,146

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

14. FINANCE LEASES

	Concentration Plant a)	Equipment Leases b)	Total
Balance at December 31, 2016	\$ 22,104	\$ 71	\$ 22,175
Inception of leases	-	13,212	13,212
Interest accretion during the year	1,626	-	1,626
Change in estimate	1,233	-	1,233
Lease payments during the year	(24,963)	(1,028)	(25,991)
Translation adjustment	-	(6)	(6)
	\$ -	\$ 12,249	\$ 12,249
Less: current portion	-	2,404	2,404
Balance at December 31, 2017	\$ -	\$ 9,845	\$ 9,845

	Concentration Plant a)	Equipment Leases	Total
Balance at December 31, 2015	\$ 22,689	\$ 63	\$ 22,752
Inception of lease	-	27	27
Change in estimate	2,848	-	2,848
Interest accretion during the year	2,500	-	2,500
Lease payments during the year	(5,933)	(21)	(5,954)
Translation adjustment	-	2	2
	\$ 22,104	\$ 71	\$ 22,175
Less: current portion	10,764	18	10,782
Balance at December 31, 2016	\$ 11,340	\$ 53	\$ 11,393

- a) Trevali purchased the Santander Mine Concentration Plant from its development partner, Glencore. This plant was accounted for as an 'asset under finance lease' in property, plant and equipment, at its inception date fair value, totalling \$25,608. The Concentration Plant lease was calculated based on the present value of future principal cash flows, discounted at the market rate of interest, determined by reference to similar lease agreements. Payments were estimated based on future cash flows from production using an annual effective interest rate of 11.28%.

During August 2017, the Company refinanced its Santander Mine operations and retired this finance lease.

- b) During 2017, the Caribou Mine leased mobile mining equipment totaling \$13,212 over five-year terms with effective interest rates ranging from 5.63% to 6.03% per annum.

TREVALI MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

15. LONG-TERM DEBT

	Credit Facilities a)	Promissory Note b)	Working Capital Facility c)	Senior Secured Notes d)	Santander Creditors Obligation	Total
Balance at December 31, 2016	\$ -	\$ -	\$ 14,802	\$ 43,041	\$ 263	\$ 58,106
Amount advanced, net of transaction costs	186,044	2,064	-	-	-	188,108
Accretion and accrual of interest and transaction costs	3,202	-	1,629	6,431	-	11,262
Loss on foreign exchange translation	-	104	-	3,073	-	3,177
Loan and interest payments	(40,865)	(2,168)	(16,431)	(52,545)	(263)	(112,272)
	148,381	-	-	-	-	148,381
Less: Interest payable	73	-	-	-	-	73
Less: Current portion	34,000	-	-	-	-	34,000
Balance at December 31, 2017	\$ 114,308	\$ -	\$ -	\$ -	\$ -	\$ 114,308

	Working Capital Facility c)	Senior Secured Notes d)	Santander Creditors Obligation	Total
Balance at December 31, 2015	\$ 18,183	\$ 40,761	\$ 2,160	\$ 61,104
Accretion and accrual of interest and transaction costs	1,021	6,788	-	7,809
Loss on foreign exchange translation	-	1,240	(23)	1,217
Loan and interest payments	(4,402)	(5,748)	(1,874)	(12,024)
	14,802	43,041	263	58,106
Less: interest payable	-	472	-	472
Less: current portion	3,255	11,172	263	14,690
Balance at December 31, 2016	\$ 11,547	\$ 31,397	\$ -	\$ 42,944

a) Credit Facilities

During August 2017, the Company entered into a \$190,000 five-year senior secured credit facility comprised of a \$160,000 senior-secured, amortizing non-revolving five-year credit facility (“Term Facility”) and a \$30,000 senior-secured, revolving three-year credit facility (“Revolving Facility”). The Term Facility is repayable on a quarterly instalment basis per the schedule below. The advances under the Term Facility and Revolving Facility bear interest on a sliding scale: (i) at a rate of LIBOR plus between 3.00 percent to 4.00 percent or (ii) at a base rate plus between 2.00 percent to 3.00 percent. The Company has provided security on the credit facilities in the form of a general pledge of the Company’s assets including unconditional joint and several guarantees by existing and future directly owned material subsidiaries and by an assignment of the Company’s concentrate off-take contracts and various insurance policies.

The Company has \$27,876 (net of letters of credit issued - Note 9) available on the ‘Revolving Facility’ for future draw-downs as of December 31, 2017.

The Company must maintain certain financial covenants including tangible net worth, interest coverage and leverage ratios. As at December 31, 2017, the Company was in full compliance with these financial covenants.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

15. LONG-TERM DEBT (continued)

a) Credit Facilities (continued)

Year	Scheduled Principal Payments
2018	\$ 34,000
2019	40,000
2020	36,000
2021	24,000
2022	18,000
Total	\$ 152,000

b) Promissory Note

During March 2017, Trevali signed a C\$2,755 promissory note with Sandvik Customer Finance Canada to finance the Caribou Mine fleet. This promissory note carried a 5.4% annual interest rate with eighteen monthly repayments scheduled to August 1, 2018.

During November 2017, Trevali paid the remaining balance owing and retired this note.

c) Working Capital Facility

During November 2012, Trevali closed a \$20,000 working capital facility from its development partner, Glencore. Trevali provided a charge covering substantially all the Company's Peruvian assets as security. The facility bears interest at LIBOR plus five percent and is repayable monthly over a five-year term. Any balance at the end of the five-year repayment term is payable immediately and the balance may be pre-paid, at any stage, without penalty.

On August 31, 2017, Trevali refinanced its Santander Mine operations and retired this working capital facility.

d) Senior Secured Notes

On May 30, 2014, the Company closed an offering of 52,500 units ("Units"), consisting of 12.5% Senior Secured Notes due May 30, 2019 and Common Share purchase warrants issued at a 2% discount to their C\$1 per Unit face value, for aggregate gross proceeds of C\$51,450. Each Unit consists of the C\$1 principal amount of the notes and 123.2 warrants. Each whole warrant entitled the holder, subject to certain conditions, to purchase one common share at an exercise price of C\$1.26. These warrants expire on May 30, 2019.

On December 31, 2015, the Company announced that it amended, by way of entering into a supplemental indenture, its original note indenture with its senior secured holders of its C\$52,500 12.5% Senior Secured Notes to extend and expand the debt facility. Under the amended agreement, the Company issued an additional C\$8,400 in new notes and received a waiver on the August 30, 2016 C\$7,500 payment that was subsequently deferred to August 30, 2017. In relation to these amendments and issuance of the new notes, the 6,468,000 five-year warrants issued in connection with the original Senior Secured Notes offering were repriced downward from C\$1.26 to C\$0.475 and the term of the warrants was extended to a new five-year term. In addition, in connection with the new notes issued, an additional 1,034,880 five-year warrants were issued having an exercise price of C\$0.475. The December 31, 2015 agreement was accounted for as a modification.

The Company also agreed to adjust the exercise price of the warrants, if and whenever, at any time on or after December 30, 2015 and on or prior to June 30, 2016, the Company issued common shares, or securities convertible into or exchangeable for common shares, at a price lower than C\$0.413 per share. The effect of this adjustment mechanism is that the warrants would be repriced to a 115% or, in some cases, a 110% premium to any subsequent equity issuance during this period.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

15. LONG-TERM DEBT (continued)

d) Senior Secured Notes (continued)

On March 16, 2016, the Company closed an offering, pursuant to a short-form prospectus, of 46,718,750 common shares at C\$0.32 per share for aggregate gross proceeds of C\$14,950. As a result of this offering, the exercise price of the 7,502,880 warrants, previously issued with the May 31, 2014 offering and the December 31, 2015 supplemental indenture, were repriced from an exercise price of C\$0.475 to C\$0.352 per share. The impact of the March 16, 2016 offering on the Senior Secured Notes has been accounted for as a modification.

The option expired on June 30, 2016 and the warrants were reclassified from liability to equity on July 1, 2016 at a fair value of \$1,919 (C\$2,577) using the Black-Scholes option pricing model. Up to June 30, 2016, the warrants had been classified as a derivative liability based on the evaluation of the warrants being carried at fair value and the change in fair value of the liability was recorded as a gain on derivative liability in the statement of operations and comprehensive income. On July 1, 2016, the liability was revalued at fair value and then reclassified as equity. The loss on the derivative liability totaled \$341 for the year ended December 31, 2016.

The Company provided security on the loan facility with a charge over substantially all the Company's Canadian assets and received a waiver and deferral on the August 31, 2016 C\$7,500 amortization payment to August 30, 2017. The Senior Secured Notes bore annual compounded interest at a rate of 12.5%.

On August 31, 2017, Trevali refinanced its operations and retired all remaining senior secured notes. The Company paid a prepayment interest penalty totaling \$5,213 and expensed all remaining deferred loan fees and bond discounts totaling \$2,178.

16. PROVISION FOR ENVIRONMENTAL REHABILITATION

The Company's provision for environmental rehabilitation consists of costs accrued based on the best estimate of mine closure and reclamation activities that will be required at its sites upon completion of mining and related activity. These activities include costs for earthworks, including land re-contouring and re-vegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the balance sheet date, known legal requirements and estimates prepared by internal and third-party specialists.

The assumptions used in the estimation of the provision are as follows:

	Undiscounted liability for closure	Remaining Life-of-Mine (Years)	Reclamation period (Years)	Pre-tax discount rate	Inflation factor	PV of cash flow required on closure
Santander	\$ 10,694	15	6	2.48%	2.00%	\$ 10,936
Halfmile ¹	\$ 498	20	1	2.20%	2.00%	\$ 547
Caribou ²	\$ 24,915	10	50	1.98-2.20%	2.00%	\$ 25,092
Rosh Pinah ³	\$ 4,342	8	5	8.13%	7.00%	\$ 4,411
Perkoa ⁴	\$ 7,000	8	5	6.50%	2.00%	\$ 6,704
						\$ 47,690

¹Halfmile liability will be settled in Canadian dollars. The C\$ equivalent of the undiscounted obligation is C\$625.

²Caribou liability will be settled in Canadian dollars. The C\$ equivalent of the undiscounted obligation is C\$31,256.

³Rosh Pinah liability will be settled in South African Rand. The ZAR equivalent of the undiscounted obligation is ZAR58,839.

⁴Perkoa liability will be settled in United States Dollars.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

16. PROVISION FOR ENVIRONMENTAL REHABILITATION (continued)

The following is a continuity schedule of the Company's estimated provisions:

Balance at December 31, 2016	\$	33,468
Business acquisition (Note 4)		10,851
Accretion		1,275
Change in estimates		(346)
Change in discount rate		497
Change in foreign exchange rate		1,945
Balance at December 31, 2017	\$	47,690
<hr/>		
Balance at December 31, 2015	\$	33,310
Accretion		726
Change in discount rate		(874)
Change in estimate		(405)
Change in foreign exchange rate		711
Balance at December 31, 2016	\$	33,468

17. SHARE CAPITAL

Authorized: Unlimited number of common shares without par value.

During the year ended December 31, 2017, the Company:

- a) Issued 193,432,310 shares to Glencore as the 'share consideration' component for the purchase of the Rosh Pinah and Perkoa Mines. The 'share consideration' totalled \$219,443 (\$219,288 net of fees) based on the closing share price of C\$1.43 on August 31, 2017 (Note 4).
- b) Issued 220,455,000 shares in a bought deal private placement of subscription receipts ("Subscription Receipts") at a price of C\$1.20 per Subscription Receipt ("Offering") for gross proceeds of C\$264,546 (\$211,029) including the full exercise of an underwriters' option for 28,755,000 Subscription Receipts. The Company incurred share issuance fees totalling \$10,655 for net proceeds totalling \$200,374. The net proceeds of the Offering funded a portion of the 'cash consideration' payable to Glencore for the purchase of the Rosh Pinah and Perkoa Mines (Note 4) and general working capital purposes.
- c) Issued 760,200 common shares under its short-term incentive plan as bonus shares and 2,197,604 common shares resulting from the vesting of outstanding RSU's.
- d) Issued 7,274,121 shares from the exercise of stock options and warrants for aggregate gross proceeds of \$2,751.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

18. SHARE-BASED PAYMENT RESERVE**Stock options**

As part of the Glencore acquisition, Glencore became a related party and in accordance with the Shareholder Rights Plan Termination Resolution, all stock options became fully-vested effective as of the Acquisition Date.

As at December 31, 2017 and 2016, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Expiry date	December 31, 2017			December 31, 2016		
	Exercise price (C\$)	Number of options	Exercisable	Exercise price (C\$)	Number of options	Exercisable
May 1, 2018	\$0.77	527,500	527,500	\$0.77	855,000	855,000
May 31, 2018	\$0.62	320,000	320,000	\$0.62	553,351	553,351
August 30, 2018	\$0.72	30,000	30,000	\$0.72	66,650	66,650
June 24, 2019	\$1.01	911,200	911,200	\$1.01	1,187,700	791,800
August 15, 2019	\$1.29	248,500	248,500	\$1.29	248,500	165,667
January 30, 2020	\$1.03	2,734,794	2,734,794	\$1.03	2,891,460	963,820
June 1, 2021	\$0.45	3,132,367	3,132,367	\$0.45	3,759,000	-
January 20, 2022	\$1.12	1,451,000	1,451,000	-	-	-
August 31, 2022	\$1.59	553,540	-	-	-	-
	\$0.79	9,908,901	9,355,361	\$0.76	9,561,661	3,396,288

At December 31, 2017, the weighted average remaining contractual life of the stock options was 2.72 years (December 31, 2016 – 3.01 years).

Stock option transactions are as follows:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price (C\$)	Number of options	Weighted average exercise price (C\$)
Balance, beginning of the year	9,561,661	\$0.76	6,350,876	\$0.95
Granted	2,033,440	\$1.31	3,857,800	\$0.45
Exercised	(1,657,833)	\$0.70	(373,785)	\$0.63
Forfeited	(28,367)	\$0.58	(172,088)	\$1.21
Expired	-	-	(101,142)	\$1.75
Balance, end of the year	9,908,901	\$0.79	9,561,661	\$0.76

The weighted average market price on the exercise of options for the year ended December 31, 2017 was C\$1.48 (December 31, 2016 – C\$1.11).

During the year ended December 31, 2017, the Company granted 1,479,900 stock options at an exercise price of C\$1.21 per share (these options became fully-vested effective as of the Acquisition Date) and 553,540 stock options at an exercise price of C\$1.59 per share. The Company recorded \$1,363 (2016 – \$498) in total share-based payment expense related to its stock option plan, of which \$nil (2016 – \$80) was capitalized to property, plant and equipment, \$27 (2016 – \$35) to exploration and evaluation assets and \$865 (2016- \$nil) in business acquisition costs.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

18. SHARE-BASED PAYMENT RESERVE (continued)**Stock options (continued)**

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average calculations for the years ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Risk-free interest rate	1.03%	0.72%
Expected life of options	5 years	5 years
Annualized volatility	64.05%	64.90%
Dividend rate	0.00%	0.00%
Forfeiture rate	5.60%	2.97%

Warrants

Warrants transactions are summarized as follows:

	December 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price (C\$)	Number of warrants	Weighted average exercise price (C\$)
Balance, beginning of the year	7,902,880	\$0.40	8,002,880	\$0.51
Exercised	(5,616,288)	\$0.41	(100,000)	\$0.35
Balance, end of the year	2,286,592	\$0.35	7,902,880	\$0.40

The weighted average market price on the exercise of warrants for the year ended December 31, 2017 was C\$1.43 (December 31, 2016 - C\$1.35).

At December 31, 2017 and 2016, warrants outstanding were as follows:

Expiry date	December 31, 2017		December 31, 2016	
	Number of warrants	Exercise price (C\$)	Number of warrants	Exercise price (C\$)
April 9, 2017	-	-	500,000	\$1.04
December 31, 2020	2,286,592	\$0.35	7,402,880	\$0.35
	2,286,592	\$0.35	7,902,880	\$0.40

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

18. SHARE-BASED PAYMENT RESERVE (continued)**Bonus Shares, RSUs and DSUs**

During the year ended December 31, 2017, the Company granted 672,800 bonus shares, 970,890 RSUs and 310,000 DSUs. The Company recorded \$5,670 (2016 – \$694) in share-based payment expense related to the incentive plan for the grant of bonus shares, RSUs and DSUs, of which \$nil (2016 – \$64) was capitalized to property, plant and equipment and \$76 (2016 – \$48) to exploration and evaluation assets and \$4,550 (2016 - \$nil) in business acquisition costs. As part of the Glencore acquisition, Glencore became a related party and in accordance with the Shareholder Rights Plan Termination Resolution, all bonus shares became fully-vested effective as of the Acquisition Date.

At December 31, 2017 and 2016, share units outstanding were as follows:

Bonus Shares:	December 31, 2017		December 31, 2016	
	Number of units	Weighted average fair value (C\$)	Number of units	Weighted average fair value (C\$)
Balance, beginning of year	2,112,000	\$0.72	1,117,577	\$0.92
Issued	672,800	\$1.23	1,550,300	\$0.48
Forfeited	(28,772)	\$1.42	(13,160)	\$0.68
Redeemed	(506,602)	\$1.41	(542,717)	\$0.45
Balance, end of year	2,249,426	\$0.74	2,112,000	\$0.72

RSUs:	December 31, 2017		December 31, 2016	
	Number of units	Weighted average fair value (C\$)	Number of units	Weighted average fair value (C\$)
Balance, beginning of year	3,731,670	\$0.86	2,871,000	\$0.98
Issued	970,890	\$1.33	1,328,900	\$0.48
Forfeited	(137,040)	\$1.47	(24,730)	\$0.90
Redeemed	(4,267,430)	\$1.46	(443,500)	\$0.49
Balance, end of year	298,090	\$1.56	3,731,670	\$0.86

DSUs:	December 31, 2017		December 31, 2016	
	Number of units	Weighted average fair value (C\$)	Number of units	Weighted average fair value (C\$)
Balance, beginning of year	996,453	\$0.71	697,060	\$0.98
Issued	310,000	\$1.23	746,824	\$0.48
Redeemed	(700,560)	\$0.81	(447,431)	\$0.75
Balance, end of year	605,893	\$0.86	996,453	\$0.71

TREVALI MINING CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

19. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended December 31, 2017 and 2016, the Company had the following related party transactions:

Glencore

On August 31, 2017, Glencore acquired 193,432,310 common shares as part of Trevali's acquisition of the Rosh Pinah and Perkoa mines (Note 4). As of December 31, 2017, Glencore owns 210,835,925 Trevali common shares representing approximately 25.5% of the total issued and outstanding common shares.

Glencore purchases Trevali's concentrate production under the off-take agreements at each of its mines and Glencore provides financing and mine-management services to Trevali at various commercial rates.

The Company entered into the following transactions during the year ended December 31, 2017 and 2016 with Glencore:

- a) Earned revenue of \$330,533 (2016 – \$102,870) on concentrate sales (Note 20).
- b) Paid \$24,963 (2016 – \$5,933) in principal and interest to retire the finance lease (Note 14).
- c) Paid \$16,431 (2016 – \$4,402) in principal and interest to retire the working capital facility (Note 15).
- d) Paid or accrued production expenses totalling \$18,326 (2016 - \$20,664) and mine development expenses of \$13,599 (2016 – \$9,128) capitalized to property, plant and equipment.

As of December 31, 2017, amounts due from Glencore total \$70,360 for concentrate sales (2016 - \$22,552).

As of December 31, 2017, amounts due to Glencore include \$2,768 of deferred revenue for advances made on provisional concentrate sales, \$5,422 for management and other fees, and \$217 (December 31, 2016 - \$2,822) bearing approximately 8% interest for mine development and operation expenses.

Management compensation

Trevali paid or accrued compensation of \$464 (2016 – \$606) to officers and capitalized \$nil (2016 – \$23) to property, plant and equipment; capitalized \$76 (2016 – \$89) to exploration and evaluation assets and expensed \$100 (2016 – \$nil) in production costs.

Trevali paid or accrued officers' compensation directors' fees of \$1,138 (2016 – \$748) to directors and officers. The Company recorded share-based payment expense related to the vesting of issued stock options and share units of \$862 (2016 – \$807) included in consulting fees, \$nil (2016 – \$194) capitalized to property, plant and equipment, \$77 (2016 – \$93) capitalized to exploration and evaluation assets, \$101 (2016 – \$118) in investor relations, \$nil (2016 - \$8) in office, \$279 (2016 – \$104) in production costs and \$4,946 (2016 - \$nil) in business acquisition costs.

At December 31, 2017, amounts due to related parties include \$nil (December 31, 2016 - \$60) due to directors and officers and \$3 (December 31, 2016 - \$660) due to companies related to officers for consulting fees. The amounts due to directors are unsecured, bear no interest and are payable on demand.

Total amount payable to Glencore \$8,407 (December 31, 2016 - \$2,822) and due to directors and officers \$3 (December 31, 2016 - \$660).

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

20. REVENUES

	Zinc	Lead-Silver	Total
Year ended December 31, 2017			
Revenues	\$ 339,722	\$ 83,364	\$ 423,086
Less: Smelting and refining	75,299	17,254	92,553
Revenues, net	\$ 264,423	\$ 66,110	\$ 330,533
Year ended December 31, 2016			
Revenues	\$ 101,036	\$ 48,615	\$ 149,651
Less: Smelting and refining	31,554	15,227	46,781
Revenues, net	\$ 69,482	\$ 33,388	\$ 102,870

During the year ended December 31, 2017, the Company delivered all concentrate to Glencore, a related party, under the terms of various off-take agreements, for net \$330,533 (2016 – \$102,870).

As at December 31, 2017, the Company is disclosing revenues net of smelting and refining charges consistent with industry standards.

21. GENERAL AND ADMINISTRATIVE EXPENSES

		Year ended December 31,	
	Note	2017	2016
Consulting fees	19	\$ 2,865	\$ 2,434
Investor relations	19	514	500
Office		2,170	772
Professional fees		1,528	718
Regulatory		299	291
Travel and promotion		214	110
		\$ 7,590	\$ 4,825

22. INTEREST EXPENSE

		Year ended December 31,	
	Note	2017	2016
Interest accretion on finance lease	14	\$ 1,626	\$ 2,847
Interest accretion on provision for environmental rehabilitation	16	1,275	726
Interest expense on long term debt	15	8,359	4,461
Prepayment interest penalty	15	5,213	-
Interest expense on revolving credit facility	15	319	-
Interest expense on term credit facility	15	2,912	-
Interest expense on finance leases		378	850
Interest expense on trades payable and receivable		427	258
		\$ 20,509	\$ 9,142

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

23. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	December 31, 2017	December 31, 2016
Income before income tax	\$ 39,919	\$ 14,423
Canadian statutory rate	26%	26%
Expected income tax expense (recovery)	\$ 10,378	\$ 3,750
Increase (decrease) due to:		
Non-deductible expenses	6,398	1,160
Losses for which no tax benefit has been recorded	-	19
New Brunswick Mining Tax (current and deferred)	5,636	556
Amounts over provided for in prior years	2,361	(14)
Differences between foreign and Canadian tax rates	(254)	324
Foreign exchange translation	(542)	(144)
Changes in Canadian tax rates	680	1,490
Difference between flow-through share premium and tax benefits renounced	-	1,412
Use of previously unrecognized tax assets	(4,965)	(3,339)
	\$ 19,692	\$ 5,214

Income tax expense consists of the following:

	December 31, 2017	December 31, 2016
Current mining tax	\$ 7,878	\$ 778
Deferred income tax expense	11,814	4,436
	\$ 19,692	\$ 5,214

The components of recognized net deferred tax assets (liabilities) as at December 31, 2017 and 2016, are as follows:

	December 31, 2017	December 31, 2016
Non-capital losses carried forward	\$ 25,539	\$ 23,355
Tax value of share and debt issuance costs	2,730	723
Provision for environmental rehabilitation	14,274	11,787
Unrealized gains	(5,497)	-
Book value in excess of tax value of property, plant and equipment	(170,904)	(54,733)
Current assets and liabilities	(3,553)	94
Net deferred tax liabilities	\$ (137,411)	\$ (18,774)

The deferred tax assets and liabilities as at December 31, 2017 and 2016, are presented as follows:

	December 31, 2017	December 31, 2016
Deferred income tax assets	\$ 8,521	\$ 1,286
Deferred income tax liabilities	(145,932)	(20,060)
	\$ (137,411)	\$ (18,774)

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

23. INCOME TAXES (continued)

The components of unrecognized deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Non-capital losses	\$ 5,757	\$ 4,906
Capital losses and other	714	208
	\$ 6,471	\$ 5,114

At December 31, 2017, the Company had non-capital losses available for carry forward which may be applied to reduce future years' taxable income. These losses, if not utilized, will expire as follows:

Available to	Canada	Foreign	Total
2019	\$ -	\$ 35,448	\$ 35,448
2023	9	-	9
2024	654	-	654
2025	437	-	437
2026	902	-	902
2027	727	-	727
2028	1,287	-	1,287
2029	9,096	-	9,096
2030	6,663	-	6,663
2031	5,755	-	5,755
2032	2,169	-	2,169
2033	7,724	-	7,724
2034	18,031	-	18,031
2035	24,821	-	24,821
2036	3,770	-	3,770
2037	2,542	-	2,542
	\$ 84,587	\$ 35,448	\$ 120,035

24. CONTINGENT LIABILITIES

The Company and its subsidiaries are subject to routine legal proceedings and tax audits. Although the Company cannot predict the result of any legal proceeding or tax filing, the Company believes that the likelihood of any liability arising from any such claim is remote and that the liability, if any, arising from any litigation or tax filing assessment, individually or in aggregate, will not have a significant effect on the financial position or profitability of the Company and its subsidiaries.

The Company operates in Canada, Peru, Namibia and Burkina Faso and is subject to various tax and environmental laws and regulations. The Company is in material compliance with those laws and regulations and all probable contingencies have been reasonably estimated and accrued.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

25. SEGMENTED INFORMATION

The Company's executive management team manages its business, including the allocation of resources, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions. The Company has four operating segments - Caribou Mine, Canada; Santander Mine, Peru; Rosh Pinah, Namibia and Perkoa Mine, Burkina Faso and one Corporate and other segment including the Company's executive head office, general corporate administration and activity, and the Halfmile-Stratmat project in Canada.

	Year ended December 31, 2017					
	Caribou Mine	Santander Mine	Rosh Pinah Mine	Perkoa Mine	Corporate and Other	Total
Revenues	\$ 118,447	\$ 72,151	\$ 45,632	\$ 94,303	\$ -	\$ 330,533
Mining operating expenses	73,667	49,084	39,490	82,205	-	244,446
Gross profit	44,780	23,067	6,142	12,098	-	86,087
General and administration	395	672	-	196	6,327	7,590
Gain (loss) on foreign exchange	2,427	(149)	888	79	3,672	6,917
Interest expense	13,693	2,615	350	3,839	12	20,509
Business acquisition cost	-	-	-	-	12,619	12,619
Other income	(104)	(259)	(487)	-	(617)	(1,467)
Income (loss) before income tax	\$ 28,369	\$ 20,188	\$ 5,391	\$ 7,984	\$ (22,013)	\$ 39,919

	Year ended December 31, 2016				Total
	Caribou Mine	Santander Mine	Corporate and Other		
Revenues	\$ 36,185	\$ 66,685	\$ -	\$ -	\$ 102,870
Mining operating expenses	30,145	44,353	-	-	74,498
Gross profit	6,040	22,332	-	-	28,372
General and administration	157	288	4,380		4,825
Loss (gain) on foreign exchange	74	(239)	63		(102)
Interest expense	3,896	5,235	11		9,142
Other income	(620)	(80)	(44)		(744)
Loss on derivatives	-	-	341		341
Impairment of non-current assets	-	-	487		487
Income (loss) before income tax	\$ 2,533	\$ 17,128	\$ (5,238)	\$ -	\$ 14,423

TREVALI MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

25. SEGMENTED INFORMATION (continued)

Total Assets at December 31, 2017						
	Caribou Mine	Santander Mine	Rosh Pinah Mine	Perkoa Mine	Corporate and Other	Total
Cash	\$ 15,369	\$ 6,937	\$ 23,514	\$ 21,431	\$ 26,884	\$ 94,135
Restricted cash	-	3,210	-	-	-	3,210
Accounts receivable	22,178	13,773	22,257	30,458	265	88,931
Prepaid expenses and other	519	1,685	278	2,448	1,051	5,981
Inventories	5,215	1,479	19,286	40,557	-	66,537
Reclamation bonds	5,957	85	-	1,826	513	8,381
Long-term receivables	-	-	-	15,914	3,800	19,714
Exploration and evaluation assets	1,816	-	37,213	219	22,920	62,168
Property, plant and equipment	125,904	142,334	228,759	173,086	90,663	760,746
Deferred income tax	-	-	-	-	8,521	8,521
Goodwill	-	-	61,835	-	-	61,835
Total assets	\$ 176,958	\$ 169,503	\$ 393,142	\$ 285,939	\$ 154,617	\$1,180,159

Total Assets at December 31, 2016				
	Caribou Mine	Santander Mine	Corporate and Other	Total
Cash	\$ 6,752	\$ 2,534	\$ 1,850	\$ 11,136
Restricted cash	-	3,505	29	3,534
Accounts receivable	12,599	16,421	199	29,219
Prepaid expenses and other	165	1,485	1,236	2,886
Inventories	5,787	1,341	55	7,183
Reclamation bonds	3,828	4,556	477	8,861
Long-term receivable	-	-	3,800	3,800
Exploration and evaluation assets	-	-	9,118	9,118
Property, plant and equipment	116,504	127,167	90,238	333,909
Total assets	\$ 145,635	\$ 157,009	\$ 107,002	\$ 409,646

26. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-cash investing and financing transactions for the years ended December 31, 2017 and 2016 consist of the following:

	2017	2016
Due to related parties included in property, plant and equipment	\$ 217	\$ 678
Accounts payable and accrued liabilities included in property, plant and equipment	\$ 3,284	\$ 2,271
Accounts receivable related to pre-production phase revenues credited against property, plant and equipment	\$ -	\$ 1,211
Promissory note provided as deposit on Caribou mine fleet	\$ 2,064	\$ -
Mining equipment leased at the Caribou mine	\$ 13,212	\$ 27
Share-based payment included in property, plant and equipment and exploration and evaluation	\$ 103	\$ 228
Fair value of bonus shares, RSUs and DSUs issued	\$ 529	\$ 4

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

27. NON-CONTROLLING INTERESTS

	Rosh Pinah Mine	Perkoa Mine	Total
Balance, January 1, 2017	\$ -	\$ -	\$ -
Business acquisition – August 31, 2017 (Note 4)	57,184	(20,725)	36,459
Non-controlling interests' share of net income	904	559	1,463
Balance, December 31, 2017	\$ 58,088	\$ (20,166)	\$ 37,922

The Mining Convention between Nantou Mining and the Government of Burkina Faso, which was signed by the Minister of Mines of Burkina Faso on August 27, 2008, sets out the fiscal and legal terms with respect to the operation of the Perkoa Exploitation Permit, including taxation rates applicable to the project, per the 2003 Mining Code. The Convention is valid for 20 years commencing on the date of the grant, and may be renewed for subsequent periods of five years. The Government of Burkina Faso holds a 10% interest, in accordance with the Mining Code.

The payments of the 10% earnings to the Government of Burkina Faso shall only starts once all investments has been recovered by the majority shareholder. As of December 31, 2017 no earnings are due to the Government of Burkina Faso.

28. SUBSEQUENT EVENTS

- a) On January 24, 2018, the Company granted 1,351,200 stock options, 739,500 RSUs and 269,800 DSUs.
- b) On February 21, 2018, Rosh Pinah Zinc Corporation (Proprietary) Limited (“Rosh Pinah”) declared a \$10,000 dividend payment of which 19.91% is attributable to the non-controlling interests.
- c) On March 2, 2018, Trevali announced that it had entered into a Letter of Intent with Puma Exploration Inc. for the acquisition of an option to acquire an interest in the Murray Brook Deposit and to form a proposed Strategic Exploration Alliance in the northern portion of the Bathurst Mining Camp in New Brunswick. The option is subject to certain standard terms and conditions which include receipt of all requisite regulatory approvals, including the acceptance of the TSX Venture Exchange. Trevali, at its option, will provide all or part of the remaining CDN\$7,500 in funding to Puma in order for Puma to finalize the 100-percent acquisition of the Murray Brook Deposit ultimately leading to a 75:25 percent ownership interest between Trevali and Puma, respectively, and a 51:49 percent ownership in the Murray Brook East Property, respectively. Additionally, Trevali will subscribe for CDN\$500 worth of units (the “Units”) of Puma at an issue price equal to the five-day volume weighted average trading price of Puma’s common shares ending on the date of announcement of the placement and terms of the letter agreement, subject to a permissible discount pursuant to the rules of the TSX Venture Exchange. Each Unit will consist of one common share and one-half of a warrant, with the warrants being fully transferrable, having a three-year term and an exercise price set 30% above the issue price of the common shares that form a part of the Units. The proceeds will be used to advance the Strategic Exploration Alliance.

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

29. RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION DUE TO CHANGE IN PRESENTATION CURRENCY

For comparative purposes, the consolidated statements of financial position as at December 31, 2016 and January 1, 2016 includes adjustments to reflect the change in accounting policy resulting from the change in the presentation currency to the US dollar. The amount previously reported in Canadian dollars as shown below have been translated into US dollars at the December 31, 2016 and January 1, 2016 exchange rate of 1.3427 US\$:C\$ and 1.3840 US\$:C\$, respectively.

	Previously reported in C\$	Restated in US\$
As at December 31, 2016		
Current assets	\$ 72,449	\$ 53,958
Non-current assets	477,581	355,688
Total assets	\$ 550,030	\$ 409,646
Current liabilities	\$ 61,976	\$ 46,160
Non-current liabilities	143,104	106,579
Total liabilities	\$ 205,080	\$ 152,739
	Previously reported in C\$	Restated in US\$
As at January 1, 2016		
Current assets	\$ 45,119	\$ 32,602
Non-current assets	472,394	341,326
Total assets	\$ 517,513	\$ 373,928
Current liabilities	\$ 35,696	\$ 25,795
Non-current liabilities	176,563	127,574
Total liabilities	\$ 212,259	\$ 153,369

TREVALI MINING CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of United States Dollars except for share and per share amounts)

For the Years Ended December 31, 2017 and 2016

29. RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION DUE TO CHANGE IN PRESENTATION CURRENCY (continued)

For comparative purposes, the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2016 includes adjustments to reflect the change in accounting policy resulting from the change in the presentation currency to the US dollar. The amount previously reported in Canadian dollars as shown below have been translated into US dollars at the average exchange rates for the reporting period, or at the exchange rate prevailing at date of transactions.

	Year ended December 31, 2016	
	Previously reported in C\$	Restated in US\$
REVENUES	\$ 136,250	\$ 102,870
Mine operating expenses		
Production costs	66,642	50,317
Distribution	5,878	4,437
Royalty expense	2,000	1,510
Depreciation, depletion and amortization	24,151	18,234
	98,671	74,498
GROSS PROFIT	37,579	28,372
GENERAL AND ADMINISTRATION EXPENSES	6,389	4,825
OPERATING PROFIT	31,190	23,547
OTHER ITEMS		
Gain (loss) on foreign exchange	135	102
Interest expense	(12,109)	(9,142)
Other Income	985	744
Loss on derivatives	(451)	(341)
Impairment of non-current assets	(646)	(487)
Income before taxes	19,104	14,423
Current income taxes	(1,030)	(778)
Deferred tax expense	(5,876)	(4,436)
Net income (loss) for the year	\$ 12,198	\$ 9,209
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to net income (loss)		
Translation adjustment	\$ (6,925)	\$ 4,201
Comprehensive income (loss) for the year	\$ 5,273	\$ 13,410