2009 Q1 Quarterly Report | Zincore Metals Inc.

# 2009 Q1

## Interim Consolidated Financial Statements

These interim consolidated financial statements have not been reviewed by the Company's independent auditors, Deloitte & Touche, LLP.

# Contents

# CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | MARCH 31, 2009 | DECEMBER 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and cash equivalents | $ 770,688 | $ 1,255,676 |
| Prepaids, advances and other receivables | 193,153 | 234,275 |
| | 963,841 | 1,489,951 |
| Other assets | 20,997 | 20,997 |
| Exploration advances and other receivables | 4,022 | 4,875 |
| Property, plant, and equipment (note 4) | 93,340 | 155,944 |
| Mineral properties (note 5) | 15,683,069 | 15,545,783 |
| | $ 16,765,269 | $ 17,217,550 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | 106,019 | 181,040 |
| Due to affiliated companies (note 9) | 6,241 | 742 |
| | 112,260 | 181,782 |
| Long term obligation (note 7) | 20,686 | - |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 6B) | 23,961,364 | 23,961,364 |
| Contributed surplus (note 6B) | 1,647,241 | 1,636,125 |
| Deficit | (8,976,282) | (8,561,721) |
| | 16,632,323 | 17,035,768 |
| | $ 16,765,269 | $ 17,217,550 |

Nature and continuance of operations (Note 1)
See accompanying Notes to Interim Consolidated Financial Statements

**APPROVED BY THE BOARD**

**TIMO JAURISTO** **W. DAVID BLACK**

# CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, 2009 | THREE MONTHS ENDED MARCH 31, 2008 |
|---|---|---|
| **EXPENSES** | | |
| Consulting and management fees | $ 131,432 | $ 290,104 |
| General exploration | 124,198 | 360,943 |
| Office expense | 92,820 | 132,310 |
| Shareholder information | 26,488 | 103,312 |
| Travel | 1,803 | 40,459 |
| Legal and accounting | 1,666 | 26,580 |
| Amortization | 1,661 | 3,376 |
| Loss on sale of property, plant and equipment | 49,102 | - |
| Foreign exchange gain | (12,129) | (43,660) |
| Loss before undernoted item | (417,041) | (913,424) |
| Interest and other income | 2,480 | 71,389 |
| Net and comprehensive loss for the period | (414,561) | (842,035) |
| Deficit, beginning of period | (8,561,721) | (4,847,029) |
| Deficit, end of period | $ (8,976,282) | $ (5,689,064) |
| Loss per share - basic and diluted | $ (0.01) | $ (0.01) |
| Weighted average number of shares outstanding | 79,124,833 | 79,124,833 |

See accompanying Notes to Interim Consolidated Financial Statements

# CONSOLIDATED STATEMENTS OF CASHFLOWS (UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, 2009 | THREE MONTHS ENDED MARCH 31, 2008 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (414,561) | $ (842,035) |
| Items not involving cash: | | |
| Loss on property, plant, and equipment | 49,102 | – |
| Amortization | 1,661 | 3,376 |
| Stock-based compensation (note 6D) | 11,116 | 169,766 |
| | (352,682) | (668,893) |
| Change in non-cash operating working capital: | | |
| Decrease in advances and other receivables | 46,767 | 47,399 |
| (Decrease) increase in accounts payable and accrued liabilities | (22,094) | 91,938 |
| Cash used in operating activities | (328,009) | (529,556) |
| **INVESTING ACTIVITIES** | | |
| Dispositions of (additions to) property, plant and equipment | 6,469 | (5,609) |
| Mineral property expenditures | (194,340) | (1,562,357) |
| Cash used in investing activities | (187,871) | (1,567,966) |
| **FINANCING ACTIVITY** | | |
| Long-term obligation | 20,686 | - |
| Cash provided by financing activity | 20,686 | - |
| Effects of exchange rate change on cash and cash equivalents held in a foreign currency | 10,206 | – |
| Decrease in cash and cash equivalents during the period | (484,988) | (2,097,522) |
| Cash and cash equivalents at beginning of period | 1,255,676 | 8,395,468 |
| Cash and cash equivalents at end of period | $ 770,688 | $ 6,297,946 |
| Cash and cash equivalents consist of: | | |
| Cash | $ 747,688 | $ 2,445,236 |
| Short-term investments | 23,000 | 3,852,710 |
| | $ 770,688 | $ 6,297,946 |

See accompanying Notes to Interim Consolidated Financial Statements

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the three month periods ended March 31, 2009 and 2008**

## 1/ BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements dated December 31, 2008 except as disclosed in note 3. These financial statements should be read in conjunction with those annual financial statements and notes thereto. Accordingly, this report does not include all of the information and footnotes required by accounting principles generally accepted in Canada for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

## 2/ NATURE AND CONTINUANCE OF OPERATIONS

Zincore Metals Inc. ("Zincore" or the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation, exploration and development of zinc, base and precious metal properties in Peru, Chile and Mexico.

The Company was incorporated as Peru Zinc Corporation on September 21, 2005 in the Province of British Columbia as a 100% owned subsidiary of Southwestern Resources Corp. ("Southwestern"). The Company subsequently changed its name to Southern Zinc Corporation on April 26, 2006 and to Zincore Metals Inc. on June 5, 2006. In November 2006 Zincore completed an initial public offering and commenced trading on the Toronto Stock Exchange ("TSX").

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon proving economically recoverable reserves, obtaining necessary financing to complete the development of such mineral reserves and attaining profitable production or proceeds from disposition.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes Zincore will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue to operate for the foreseeable future is conditional upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow and current market conditions make the present environment for raising significant additional equity financing unfavourable. Due to market fluctuations and the inherent risks in the exploration industry, there can be no assurance that management's future financing actions will be successful.

An inability to raise additional financing may impact the future assessment of Zincore as a going concern under CICA 1400 General Standards of Financial Statement Presentation. If the going concern assumption becomes inappropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income, and expenses and the balance sheet classifications used. Such adjustments could be material.

See note 11C for further disclosure regarding liquidity risk.

## 3/ CHANGES IN ACCOUNTING POLICIES

In February 2008, the CICA issued a new Handbook Section 3064 - Goodwill and Intangible Assets ("Section 3064"), which replaces CICA Handbook Sections 3062 - Goodwill and Other Intangible Assets ("Section 3062") and 3450 - Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The new Section is applicable to the Company's financial statements for its fiscal year beginning January 1, 2009. The adoption of this section in 2009 did not have a material impact to the Company's consolidated financial statements.

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replaces CICA Handbook

Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted.

## 4/ PROPERTY, PLANT AND EQUIPMENT

| | | | | | | AS AT MARCH 31, 2009 |
|---|---|---|---|---|---|---|
| | | COST | | ACCUMULATED AMORTIZATION | | NET BOOK VALUE |
| Office and other equipment | $ | 84,395 | $ | 30,096 | $ | 54,299 |
| Computer equipment | | 40,798 | | 18,352 | | 22,446 |
| Leasehold improvements | | 6,177 | | 3,284 | | 2,893 |
| Vehicles | | 31,891 | | 18,189 | | 13,702 |
| | $ | 163,261 | $ | 69,921 | $ | 93,340 |

| | | | | | | AS AT DECEMBER 31, 2008 |
|---|---|---|---|---|---|---|
| | | COST | | ACCUMULATED AMORTIZATION | | NET BOOK VALUE |
| Office and other equipment | $ | 107,664 | $ | 33,452 | $ | 74,212 |
| Computer equipment | | 104,798 | | 41,129 | | 63,669 |
| Leasehold improvements | | 6,177 | | 2,897 | | 3,280 |
| Vehicles | | 31,891 | | 17,108 | | 14,783 |
| | $ | 250,530 | $ | 94,586 | $ | 155,944 |

Amortization relating to exploration related assets in the amount of $5,372 (March 31, 2008 - $11,965) has been allocated to mineral properties during the period.

## 5/ MINERAL PROPERTIES

A) For the period ended March 31, 2009:

| | | ACCHA-YANQUE | | OTHER | | TOTAL |
|---|---|---|---|---|---|---|
| Balance, beginning of period | $ | 15,416,835 | $ | 128,948 | $ | 15,545,783 |
| Property, acquisition and maintenance | | 185 | | 16,156 | | 16,341 |
| Analytical | | - | | 6,809 | | 6,809 |
| Geology | | 107,410 | | - | | 107,410 |
| Technical and engineering | | 2,991 | | – | | 2,991 |
| Project administration | | 3,735 | | - | | 3,735 |
| Balance, end of period | $ | 15,531,156 | $ | 151,913 | $ | 15,683,069 |

B) For the year ended December 31, 2008:

| | ACCHA-YANQUE | MINASCCASA | CONDORINI | OTHER | TOTAL |
|---|---|---|---|---|---|
| Balance, beginning of period | $ 10,961,495 | $ 750,831 | $ 106,208 | $ 55,393 | $ 11,873,927 |
| Property, acquisition and maintenance | 175,069 | 12,764 | 11,394 | 97,237 | 296,464 |
| Analytical | 257,907 | – | 12,071 | 3,422 | 273,400 |
| Geology | 1,643,159 | 3,888 | 31,163 | 86,112 | 1,764,322 |
| Drilling | 968,895 | – | 129,285 | – | 1,098,180 |
| Technical and engineering | 976,441 | – | – | – | 976,441 |
| Research | 2,317 | – | 136 | 568 | 3,021 |
| Project administration | 550,428 | 5,922 | 2,077 | 610 | 559,037 |
| Property costs written off | (118,876) | (773,405) | (292,334) | (114,394) | (1,299,009) |
| Balance, end of period | $ 15,416,835 | $ – | $ – | $ 128,948 | $ 15,545,783 |

The Company holds a 100% interest in the Accha-Yanque and Other properties.

In 2008 the Company wrote-off deferred mineral property expenditures relating to its Condorini and Minasccasa properties and certain early stage properties in Peru and Chile. The carrying value of Condorini was expensed due to Zincore's withdrawal from the earn-in agreement regarding the property. The carrying value of Minasccasa was impaired principally due to the lack of exploration on the property over the preceding three years. The Company continues to pursue a community access agreement to enable exploration to commence and remains of the view that the Minasccasa property holds significant exploration potential. The early stage properties in Peru and Chile were impaired due to the low probability of significantly advancing their exploration considering the current market conditions for financing.

## 6/ SHARE CAPITAL

### A) COMMON AND PREFERRED SHARES

The authorized share capital of the Company consists of an unlimited number of common shares without par value, an unlimited number of first preferred shares without par value, and an unlimited number of second preferred shares without par value.

### B) CHANGES IN ISSUED SHARE CAPITAL AND CONTRIBUTED SURPLUS:

| | NUMBER OF COMMON SHARES | AMOUNT | CONTRIBUTED SURPLUS |
|---|---|---|---|
| AT JANUARY 1, 2008 | 79,124,833 | $ 23,961,364 | $ 1,359,234 |
| Stock-based compensation | – | – | 276,891 |
| AT DECEMBER 31, 2008 | 79,124,833 | $ 23,961,364 | $ 1,636,125 |
| Stock-based compensation | – | – | 11,116 |
| AT MARCH 31, 2009 | 79,124,833 | $ 23,961,364 | $ 1,647,241 |

### C) STOCK OPTIONS

The Company has a stock option plan providing for the issuance of options that shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company as at the date of grant of the options. The Company may grant options to directors, officers, employees, consultants and other personnel of the Company or any of its subsidiaries. The exercise price of each option is the volume weighted average trading price for the last five trading days prior to the date of grant of options. The option vesting periods are established by the Board of Directors or Exchange policies if applicable. Options may not be granted for a term exceeding ten years and all options granted to date have been for a term of five years.

At March 31, 2009 there were 4,630,333 stock options outstanding, of which 4,476,999 were exercisable.

| | THREE MONTHS ENDED MARCH 31, 2009 | | | YEAR ENDED DECEMBER 31, 2008 | | |
|---|---|---|---|---|---|---|
| | NUMBER OF OPTIONS | | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of period | 5,291,992 | $ | 0.50 | 5,013,000 | $ | 0.59 |
| Granted | - | $ | - | 1,488,000 | $ | 0.27 |
| Forfeited | (661,659) | $ | 0.55 | (1,209,008) | $ | 0.60 |
| Outstanding at end of period | 4,630,333 | $ | 0.50 | 5,291,992 | $ | 0.50 |
| Exercisable at end of period | 4,476,999 | $ | 0.51 | 4,633,983 | $ | 0.53 |

D) STOCK-BASED COMPENSATION

As a result of stock options vesting and the amortization of previous grants during the three month period ended March 31, 2009, the Company recognized $11,116 (March 31, 2008 – $169,766) as stock-based compensation expense and recorded this amount in contributed surplus. These amounts were recorded as follows:

| | THREE MONTHS ENDED MARCH 31, 2009 | | THREE MONTHS ENDED MARCH 31, 2008 | |
|---|---|---|---|---|
| Consulting and management fees | $ | 9,772 | $ | 73,316 |
| General exploration | | 99 | | 56,525 |
| Office expense | | 1,245 | | 39,925 |
| Total | $ | 11,116 | $ | 169,766 |

The stock–based compensation value was determined using the Black-Scholes option pricing model. There were no new grants issued during the first quarter of 2009. For the three month period ended March 31, 2008 the weighted average grant-date fair value of $0.18 for each option granted was estimated using the following weighted average assumptions: no dividends are to be paid; volatility of 78%; risk free interest rate of 3.4%; and an expected life of 3.5 years.

## 7/ LONG TERM OBLIGATION

Effective January 15, 2009, the Company subleased its office space in Vancouver to a non-related third party subtenant. Under the Sublease Agreement the subtenant paid to Zincore the equivalent of two months rent and operating expenses to be held interest free and applied against the subtenant's obligations under the Agreement.

## 8/ SEGMENTED INFORMATION

The Company operates in one reportable operating segment, the acquisition and exploration of mineral properties. The Company has non-current assets in the following geographic locations:

| | MARCH 31, 2009 | | DECEMBER 31, 2008 | |
|---|---|---|---|---|
| Peru | $ | 15,609,471 | $ | 15,539,841 |
| Chile | | 118,091 | | 101,581 |
| Canada | | 40,042 | | 58,808 |
| Mexico | | 33,824 | | 27,369 |
| Total | $ | 15,801,428 | $ | 15,727,599 |

## 9/ RELATED PARTY TRANSACTIONS

During the three month periods ended March 31, 2009 and 2008, the Company paid Southwestern and Southwestern's subsidiary under the terms of two separate administrative services agreements for certain accounting, corporate secretarial and administrative services in Canada and Peru. In addition, during the same periods, the Company paid remuneration for management services to a company controlled by a director in common as follows:

| | THREE MONTHS ENDED MARCH 31, 2009 | THREE MONTHS ENDED MARCH 31, 2008 |
|---|---|---|
| Administrative services agreements | $ 42,239 | $ 50,318 |
| Remuneration paid to a company controlled by a director | $ 8,850 | $ 37,500 |

As at March 31, 2009, there was an amount owing to Southwestern and its subsidiary totaling $6,241 (2008 - $742) for miscellaneous services provided outside of the scope of the administrative services agreements. All related party transactions are measured at the exchange amount which is the consideration agreed to between the parties.

## 10/ MANAGEMENT OF CAPITAL RISK

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus and deficit. Its capital resources consist of cash, cash equivalents and tax credits receivable. The Company manages its capital to fund its exploration and development expenditures and corporate costs with the primary objective of maintaining adequate liquidity within the Company to safeguard its ability to continue as a going concern while minimizing dilution to current equity holders.

To effectively manage its resources and minimize risk the Company maintains the majority of its capital at the parent company level and funds activities in its operating subsidiaries through a monthly cash call process. The Company prepares annual expenditure budgets that are updated as necessary depending on factors including success of programs and general industry conditions. The budget and any revisions to it are approved by the Board of Directors (the "Board").

The Company maintains an investment policy that specifies the investment products and credit exposures permitted relating to the short term investments of the Company's cash (the "Cash Investment Policy").

The Company is not subject to any externally imposed capital requirements and it does not have exposure to asset backed commercial paper or similar products.

See note 11C for further comments regarding liquidity risk.

## 11/ MANAGEMENT OF FINANCIAL RISK

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. The risk related to financial instruments is managed by the senior management of the Company under policies and directions approved by the Board. Relevant policies include the Cash Investment Policy and the approval allowing a portion of the Company's cash to be held in United States dollars at the discretion of the Chief Financial Officer. The Board monitors these policies on a quarterly basis. The Company's Board has not approved the use of derivative financial products.

### A) FAIR VALUE ESTIMATION

The fair values of the Company's held-for-trading financial instruments are equivalent to their carrying values due to their short term nature.

### B) CREDIT RISK

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations.

The Company's cash assets are held in demand accounts in Canada, Peru, Chile and Mexico. All accounts are held at commercial banks with credit ratings of A or higher.

The Company applied for and was approved for early recovery of Impuesto General a las Vuentas ("IGV") on certain exploration expenditures in Peru. IGV is a value added tax which is charged at a rate of 19% on all goods and services. At March 31, 2009, within its current receivables the Company has an IGV receivable of approximately $125,000 (December 31, 2008 - $120,000). In the fourth quarter of 2008 the Company received approximately $250,000 under the early IGV recovery and expects to receive the current amount during 2009. The IGV is receivable from the government of Peru. Should the early IGV recovery scheme be altered or terminated, IGV would be recoverable in the future as a credit against products sold from any mining operations.

#### C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's operating requirements as well as its planned capital expenditures. The Company manages its financial resources to provide working capital to fund near term planned exploration work and operating expenditures. The Company's current ability to fund significant exploration work is limited.

The Company has limited liquidity as ongoing exploration, development and corporate costs have reduced cash resources and additional capital has not been raised. While, market conditions have improved during the first quarter of 2009, the availability of equity capital for junior exploration and development companies remains limited. Zincore is continuing discussions with third parties regarding interest in the Company and/or its assets in Peru, Mexico and Chile. On May 8, 2009, the shareholders of Southwestern approved a plan of arrangement whereby Hochschild Mining plc ("Hochschild"), a London Stock Exchange listed mining company with operations in Peru, Argentina and Mexico, acquired all the common shares of Southwestern, thereby acquiring a 48.2% interest in Zincore. Zincore is discussing with Hochschild alternatives to improve liquidity and advance the assets of the Company and further discussions are scheduled before the end of May. There is no certainty that additional capital will be raised or that any discussions underway will result in a transaction or increased liquidity.

The Company has completed a significant reduction of its exploration and corporate costs for 2009 to preserve liquidity. Total budgeted cash expenditures for the remainder of 2009 on corporate costs, exploration and technical work, excluding IGV recovery and working capital changes, is $750,000. All significant exploration activities have ceased in order to preserve the asset portfolio and provide time for the junior equity financing market to improve. Management expects that, under these conditions, the Company will continue to operate through 2009. As at March 31, 2009 cash resources totaled $770,688 with an additional $125,000 of IGV refunds expected during 2009.

#### D) CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds its cash resources principally in Canadian dollars with a secondary amount held in U.S. dollars and incurs expenses principally in U.S. dollars with smaller exposures mainly to Peruvian soles and Canadian dollars. A weakening Canadian dollar relative to these currencies increases the Company's reported expenses and increases its deferred mineral property investments. However, a weakening Canadian dollar results in a foreign exchange gain on the Company's non-Canadian monetary assets.

A 10% weakening in the Canadian dollar relative to the U.S. dollar would decrease the net loss by approximately $3,900 during the final three quarters of 2009 with a 10% strengthening having the opposite effect.

A 10% weakening of the Canadian dollar relative to the U.S. dollar would increase budgeted deferred mineral property expenditures by approximately $16,800 during the final three quarters of 2009 with the opposite effect of a 10% strengthening.

A 10% weakening in the Canadian dollar relative to the Peruvian soles has an immaterial effect on the Company's net earnings or deferred mineral property expenditures.

#### E) INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash and cash equivalents. A one percent decrease in short term rates would decrease interest income and increase net loss of the Company by approximately $3,900 during the final three quarters of 2009.