# 2009 Q2

## Interim Consolidated Financial Statements (unaudited)

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

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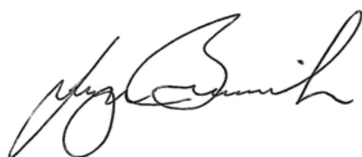
# CONSOLIDATED BALANCE SHEETS (UNAUDITED)

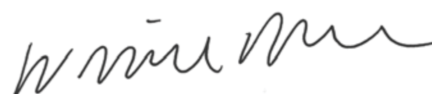
| | JUNE 30, 2009 | DECEMBER 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and cash equivalents | $ 670,638 | $ 1,255,676 |
| Prepaids, advances and other receivables | 40,256 | 234,275 |
| | 710,894 | 1,489,951 |
| Other assets | 20,997 | 20,997 |
| Exploration advances and other receivables | 3,147 | 4,875 |
| Property, plant, and equipment (note 4) | 87,640 | 155,944 |
| Mineral properties (note 5) | 15,888,935 | 15,545,783 |
| | $ 16,711,613 | $ 17,217,550 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 170,505 | $ 181,040 |
| Due to affiliated companies (note 9) | 6,222 | 742 |
| Notes payable (note 9) | 289,575 | - |
| | 466,302 | 181,782 |
| Long term obligation (note 7) | 20,686 | - |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 6) | 23,961,364 | 23,961,364 |
| Contributed surplus | 1,646,753 | 1,636,125 |
| Deficit | (9,383,492) | (8,561,721) |
| | 16,224,625 | 17,035,768 |
| | $ 16,711,613 | $ 17,217,550 |

Nature and continuance of operations (Note 1)

See accompanying Notes to Consolidated Financial Statements

**APPROVED BY THE BOARD**





**JORGE BENAVIDES** **W. DAVID BLACK**

# CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, 2009 | THREE MONTHS ENDED JUNE 30, 2008 | SIX MONTHS ENDED JUNE 30, 2009 | SIX MONTHS ENDED JUNE 30, 2008 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| General exploration | $ 189,079 | $ 310,520 | $313,277 | $671,463 |
| Consulting and management fees | 82,832 | 123,540 | 214,264 | 413,644 |
| Property costs written off | - | 292,334 | - | 292,334 |
| Office expense | 51,540 | 115,747 | 144,360 | 248,057 |
| Shareholder information | 14,544 | 46,104 | 41,032 | 149,416 |
| Legal and accounting | 38,621 | 76,029 | 40,287 | 102,609 |
| Amortization | 1,567 | 2,966 | 3,228 | 6,342 |
| Travel | 2,957 | 18,927 | 4,760 | 59,386 |
| (Gain) loss on sale of property, plant and equipment | (338) | - | 48,764 | - |
| Foreign exchange loss (gain) | 29,210 | 32,828 | 17,081 | (10,832) |
| Loss before undernoted item | (410,012) | (1,018,995) | (827,053) | (1,932,419) |
| Interest and other income | 2,802 | 33,754 | 5,282 | 105,143 |
| Net and comprehensive loss for the period | (407,210) | (985,241) | (821,771) | (1,827,276) |
| Deficit, beginning of period | (8,976,282) | (5,689,064) | (8,561,721) | (4,847,029) |
| Deficit, end of period | $ (9,383,492) | $ (6,674,305) | $(9,383,492) | $(6,674,305) |
| Loss per share - basic and diluted | $ (0.00) | $ (0.01) | $(0.01) | $(0.02) |
| Weighted average number of shares outstanding | 79,124,833 | 79,124,833 | 79,124,833 | 79,124,833 |

See accompanying Notes to Consolidated Financial Statements

# CONSOLIDATED STATEMENTS OF CASHFLOWS (UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, 2009 | THREE MONTHS ENDED JUNE 30, 2008 | SIX MONTHS ENDED JUNE 30, 2009 | SIX MONTHS ENDED JUNE 30, 2008 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | $ (407,210) | $ (985,241) | $(821,771) | $(1,827,276) |
| Items not involving cash: | | | | |
| Property costs written off | - | 292,334 | - | 292,334 |
| (Gain)loss on property, plant, and equipment | (338) | - | 48,764 | - |
| Amortization | 1,567 | 2,966 | 3,228 | 6,342 |
| Stock-based compensation | (488) | 47,767 | 10,628 | 217,533 |
| | (406,469) | (642,174) | (759,151) | (1,311,067) |
| Change in non-cash operating working capital: | | | | |
| Decrease in advances and other receivables | 27,365 | 38,240 | 74,132 | 85,639 |
| Increase(decrease) in accounts payable and accrued liabilities | 28,776 | (24,209) | 6,682 | 67,729 |
| Cash used in operating activities | (350,328) | (628,143) | (678,337) | (1,157,699) |
| **INVESTING ACTIVITIES** | | | | |
| Dispositions of (additions to) property, plant and equipment | 1,688 | (1,997) | 8,157 | (7,606) |
| Mineral property expenditures | (17,224) | (2,046,033) | (211,564) | (3,608,390) |
| Cash used in investing activities | (15,536) | (2,048,030) | (203,407) | (3,615,996) |
| **FINANCING ACTIVITY** | | | | |
| Notes payable | 289,575 | - | 289,575 | - |
| Long-term obligation | - | - | 20,686 | - |
| Cash provided by financing activity | 289,575 | - | 310,261 | - |
| Effects of exchange rate change on cash and cash equivalents held in a foreign currency | (23,761) | – | (13,555) | - |
| Decrease in cash and cash equivalents during the period | (100,050) | (2,676,173) | (585,038) | (4,773,695) |
| Cash and cash equivalents at beginning of period | 770,688 | 6,297,946 | 1,255,676 | 8,395,468 |
| Cash and cash equivalents at end of period | $ 670,638 | $ 3,621,773 | $670,638 | 3,621,773 |
| Cash and cash equivalents consist of: | | | | |
| Cash | $ 647,638 | $ 2,814,555 | $647,638 | 2,814,555 |
| Short-term investments | 23,000 | 807,218 | 23,000 | 807,218 |
| | $ 670,638 | $ 3,621,773 | $670,638 | $3,621,773 |

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**For the three and six month periods ended June 30, 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 and six month periods ended June 30, 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.

The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. These consolidated financial statements have been prepared on a going concern basis and do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary, should the Company be unable to secure additional equity capital or generate cash from operations in the future.

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. 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 JUNE 30, 2009 | | |
|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE |
| Office and other equipment | $ 84,395 | $ 32,765 | $ 51,630 |
| Computer equipment | 40,798 | 19,994 | 20,804 |
| Leasehold improvements | 6,177 | 3,670 | 2,507 |
| Vehicles | 31,891 | 19,192 | 12,699 |
| | $ 163,261 | $ 75,621 | $ 87,640 |

| | 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 $9,505 (June 30, 2008 - $23,239) has been allocated to mineral properties during the period.

## 5/ MINERAL PROPERTIES

A) For the six months ended June 30, 2009:

| | ACCHA-YANQUE | OTHER | TOTAL |
|---|---|---|---|
| Balance, beginning of period | $ 15,416,835 | $ 128,948 | $ 15,545,783 |
| Property, acquisition and maintenance | 139,881 | 21,670 | 161,551 |
| Analytical | – | 1,493 | 1,493 |
| Geology | 141,788 | 3,853 | 145,641 |
| Drilling | – | – | – |
| Technical and engineering | 34,236 | – | 34,236 |
| Research | – | – | – |
| Project administration | 231 | – | 231 |
| Balance, end of period | $ 15,732,971 | $ 155,964 | $ 15,888,935 |

B) For the year ended December 31, 2008:

| | ACCHA-YANQUE | MINASSCCASA | 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 | $ | 828,294 |
| Stock-based compensation | – | | – | | 276,891 |
| **AT DECEMBER 31, 2008** | 79,124,833 | $ | 23,961,364 | $ | 1,636,125 |
| Stock-based compensation | – | | – | | 10,628 |
| **AT JUNE 30, 2009** | 79,124,833 | $ | 23,961,364 | $ | 1,646,753 |

### 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 June 30, 2009 there were 4,523,000 stock options outstanding, of which 4,423,000 are exercisable.

| | SIX MONTHS ENDED JUNE 30, 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 | (768,992) | $ | 0.52 | (1,209,008) | $ | 0.60 |
| Outstanding at end of period | 4,523,000 | $ | 0.50 | 5,291,992 | $ | 0.50 |
| Exercisable at end of period | 4,423,000 | $ | 0.51 | 4,633,983 | $ | 0.53 |

As a result of stock options vesting and the amortization of previous grants during the three and six month periods ended June 30, 2009, the Company recognized $(488) (June 30, 2008 – $47,767) during the three month period and $10,628 (June 30, 2008 - $217,533) during the six month period as stock-based compensation expense and recorded this amount in contributed surplus. These amounts were recorded as follows:

| | | THREE MONTHS ENDED JUNE 30, 2009 | | THREE MONTHS ENDED JUNE 30, 2008 | SIX MONTHS ENDED JUNE 30, 2009 | SIX MONTHS ENDED JUNE 30, 2008 |
|---|---|---|---|---|---|---|
| Consulting and management fees | $ | (568) | $ | (12,176) | $9,204 | $61,140 |
| General exploration | | – | | 34,197 | 99 | 90,722 |
| Office expense | | 80 | | 25,746 | 1,325 | 65,671 |
| Total | $ | (488) | $ | 47,767 | $10,628 | $217,533 |

The stock –based compensation value was determined using the Black-Shciles option pricing model. There were no new grants issued during the first two quarters of 2009. For the six month period ended June 30, 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 3.3%; and 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:

| | AS AT JUNE 30, 2009 | AS AT DECEMBER 31, 2008 |
|---|---|---|
| Peru | $ 15,806,281 | $ 15,539,841 |
| Chile | 122,141 | 101,581 |
| Canada | 38,474 | 58,808 |
| Mexico | 33,823 | 27,369 |
| Total | $ 16,000,719 | $ 15,727,599 |

## 9/ RELATED PARTY TRANSACTIONS INCLUDING NOTES PAYABLE

On June 22, 2009, The Company executed a bridge loan agreement with a wholly owned subsidiary of Hochschild Mining plc ("Hochschild"), its 48.2% shareholder, to provide U.S.$1 million in working capital to Zincore. The loan has a term of one year with principal and accrued interest repayable in cash upon completion of an equity financing. In the event the loan is outstanding at the end of the term, principal and accrued interest is repayable, subject to any required regulatory and shareholder approvals, in common shares based on a 15% discount to the market price of common shares at that time. Any outstanding loan balance accrues interest at U.S. dollar one-year LIBOR plus 8%. As at June 30, 2009, $289,575 (U.S.$250,000) was borrowed under this agreement.

During the three and six month periods ended June 30, 2009 and 2008, the Company paid Southwestern Resources Corp. ("Southwestern"), as of May 2009 a wholly owned subsidiary of Hochschild, 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 JUNE 30, 2009 | THREE MONTHS ENDED JUNE 30, 2008 | SIX MONTHS ENDED JUNE 30, 2009 | SIX MONTHS ENDED JUNE 30, 2008 |
|---|---|---|---|---|
| Administrative services agreements | $ 37,181 | $ 51,674 | $ 79,420 | $ 101,992 |
| Remuneration paid to a company controlled by a director | $ 5,000 | $ 86,250 | $ 13,850 | $ 123,750 |

As at June 30, 2009, there was an amount owing to Hochschild's subsidiary totaling $6,222 (December 31, 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 the remaining funds available under the bridge loan agreement. As further described in note 9, the Company entered into a bridge loan agreement with Hochschild, its 48.2% shareholder, to provide up to U.S. $1.0 million in working capital for a term of one year.

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 exploration and other 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 10 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.

As further discussed in note 9, the counterparty to bridge loan agreement enabling the Company to draw an additional U.S.$750,000 prior to June 18, 2010 is Hochschild. Hochschild is a London listed mining company with a market capitalization exceeding $1.5 billion and currently has sufficient resources to meet their obligations under the agreement

### 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 ensure that there is sufficient working capital to fund near term planned exploration work and operating expenditures.

The Company has limited liquidity due to ongoing exploration, development and corporate costs combined with limited cash resources and no capital raisings. While, market conditions have improved during the first half of 2009, the availability of equity capital for junior exploration and development companies like Zincore remains limited. As further discussed in note 9, Zincore secured a bridge loan with Hochschild which provides up to U.S.$1.0 million in working capital for a term of one year, of which $250,000 had been drawn at June 30, 3009. To mitigate liquidity risk associated with the bridge loan, in the event the bridge loan is outstanding at the end of the term, principal and accrued interest is repayable, subject to any required regulatory and shareholder approvals, in common shares based on a 15% discount to the market price of common shares at that time. The Company continues to explore alternatives to increase liquidity and advance the assets of the Company. There is no certainty that additional capital will be raised or that any discussions underway will result in a transaction or increased liquidity.

With the Hochschild bridge loan in place, the Company increased its exploration budgets for the remainder of 2009. Total budgeted cash expenditures for the remainder of 2009 on corporate costs, exploration and technical work is $1.15 million. Management expects that, under these conditions, the Company will continue to operate through 2009. As at June 30, 2009, cash resources totaled $670,638 and U.S.$750,000 was available to be drawn under the of the bridge loan agreement with Hochschild.

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 the referenced foreign 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 and an offsetting foreign exchange loss on the Company's notes payable obligation.

A 10% weakening in the Canadian dollar relative to the U.S. dollar would increase the net loss by approximately $26,800 during the final two 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 $20,600 during the final two quarter of 2009 with the opposite effect of a 10% strengthening. A 10% weakening in the Canadian dollar relative to the Peruvian sole 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 and interest accrued on notes payable. A one percent decrease in short term rates would increase net loss of the Company by approximately $2,700 during the final two quarters of 2009.