

ZINCORE METALS INC.



For the Three Months Ended March 31, 2012 and 2011

## **Condensed Consolidated Interim Financial Statements**



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# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

IN CANADIAN DOLLARS

| As at                                      | MARCH 31, 2012       | DECEMBER 31, 2011    |
|--|----------------------|----------------------|
| <b>Assets</b>                              |                      |                      |
| Current assets                             |                      |                      |
| Cash and cash equivalents                  | \$ 5,356,272         | \$ 2,018,821         |
| Prepays, advances and other receivables    | 67,652               | 88,719               |
|  | 5,423,924            | 2,107,540            |
| Non-current assets                         |                      |                      |
| Exploration advances and other receivables | 9,357                | 162,410              |
| Property, plant, and equipment             | 154,747              | 164,712              |
| Mineral properties (note 4)                | 29,883,582           | 29,795,552           |
|  | 30,047,686           | 30,122,674           |
| <b>Total Assets</b>                        | <b>\$ 35,471,610</b> | <b>\$ 32,230,214</b> |
| <b>Liabilities</b>                         |                      |                      |
| Current liabilities                        |                      |                      |
| Accounts payable and accrued liabilities   | \$ 497,948           | \$ 1,067,376         |
|  | 497,948              | 1,067,376            |
| <b>Equity</b>                              |                      |                      |
| Share capital (note 5)                     | 51,193,219           | 47,642,108           |
| Reserves                                   | 7,575,074            | 6,514,587            |
| Deficit                                    | (23,794,631)         | (22,993,857)         |
|  | 34,973,662           | 31,162,838           |
| <b>Total Equity and Liabilities</b>        | <b>\$ 35,471,610</b> | <b>\$ 32,230,214</b> |

Nature and continuance of operations (note 1)

Commitments (note 10)

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
**(UNAUDITED)**  
 IN CANADIAN DOLLARS

|  | THREE MONTHS ENDED<br>MARCH 31, 2012 | THREE MONTHS ENDED<br>MARCH 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>Expenses</b>  |                                      |                                      |
| Salaries and benefits  | \$ 246,525                           | \$ 332,825                           |
| General exploration  | 238,503                              | 768,514                              |
| Consulting and management fees   | 113,053                              | 186,324                              |
| Office expense   | 109,699                              | 134,827                              |
| Shareholder information  | 48,386                               | 91,444                               |
| Legal and accounting   | 25,104                               | 43,053                               |
| Travel   | 20,877                               | 128,633                              |
| Foreign exchange loss  | 2,536                                | 20,100                               |
| Depreciation   | 1,949                                | 1,943                                |
| Loss before undernoted item  | (806,632)                            | (1,707,663)                          |
| Interest income  | 5,858                                | 22,855                               |
| Loss before income taxes   | (800,774)                            | (1,684,808)                          |
| Income tax expense (note 6)  | -                                    | 131,000                              |
| Loss for the period  | (800,774)                            | (1,815,808)                          |
| Other comprehensive loss:  |                                      |                                      |
| Foreign currency translation differences in foreign operations           | (535,512)                            | (505,077)                            |
| Total comprehensive loss   | \$ (1,336,286)                       | \$ (2,320,885)                       |
| Loss per share - basic and diluted                                       | \$ (0.00)                            | \$ (0.01)                            |
| Weighted average number of common shares outstanding - basic and diluted | 168,759,745                          | 141,404,186                          |

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

IN CANADIAN DOLLARS

|   | THREE MONTHS ENDED<br>MARCH 31, 2012 | THREE MONTHS ENDED<br>MARCH 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>Operating Activities</b>   |                                      |                                      |
| Loss before income taxes  | \$ (800,774)                         | \$ (1,684,808)                       |
| Items not involving cash:   |                                      |                                      |
| Depreciation  | 1,949                                | 1,943                                |
| Share-based compensation (note 5)   | 120,624                              | 310,785                              |
| Interest income   | (5,858)                              | (22,855)                             |
|   | (684,059)                            | (1,394,935)                          |
| Change in non-cash operating working capital items:                                     |                                      |                                      |
| Decrease (increase) in prepaids, advances and other receivables                         | 21,066                               | (32,175)                             |
| (Decrease) increase in accounts payable and accrued liabilities                         | (448,243)                            | 62,411                               |
| Cash used in operating activities   | (1,111,236)                          | (1,364,699)                          |
| <b>Investing Activities</b>   |                                      |                                      |
| Additions to property, plant and equipment  | (1,849)                              | (25,485)                             |
| Mineral property expenditures   | (567,011)                            | (2,642,368)                          |
| Cash used in investing activities   | (568,860)                            | (2,667,853)                          |
| <b>Financing Activities</b>   |                                      |                                      |
| Shares issued, net of issue costs   | 5,026,486                            | 5,000                                |
| Interest received   | 5,858                                | 22,855                               |
| Cash provided by financing activities   | 5,032,344                            | 27,855                               |
| Effects of exchange rate change on cash and cash equivalents held in a foreign currency | (14,797)                             | (12,482)                             |
| Increase (decrease) in cash and cash equivalents during the period                      | 3,337,451                            | (4,017,179)                          |
| Cash and cash equivalents at beginning of period  | 2,018,821                            | 10,302,450                           |
| Cash and cash equivalents at end of period  | \$ 5,356,272                         | \$ 6,285,271                         |
| Cash and cash equivalents consist of:   |                                      |                                      |
| Cash  | 4,898,772                            | 6,227,771                            |
| Short-term investments  | 457,500                              | 57,500                               |
|   | \$ 5,356,272                         | \$ 6,285,271                         |

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**  
 IN CANADIAN DOLLARS

|  | SHARE CAPITAL    |               | RESERVES                    |              |                                      | DEFICIT         | TOTAL         |
|--|------------------|---------------|-----------------------------|--------------|--------------------------------------|-----------------|---------------|
|  | NUMBER OF SHARES | AMOUNT        | SHARE-BASED PAYMENT RESERVE | WARRANTS     | FOREIGN CURRENCY TRANSLATION RESERVE |                 |               |
| Balance at January 1, 2011   | 141,385,075      | \$ 43,886,388 | \$ 2,684,815                | \$ 1,019,542 | \$ (983,726)                         | \$ (16,356,769) | \$ 30,250,250 |
| Shares issued for cash on exercise of share options                | 20,000           | 7,987         | (2,987)                     | –            | –                                    | –               | 5,000         |
| Share-based compensation   | –                | –             | 310,785                     | –            | –                                    | –               | 310,785       |
| Comprehensive loss for period                                      | –                | –             | –                           | –            | (505,077)                            | (1,815,808)     | (2,320,885)   |
| Balance at March 31, 2011  | 141,405,075      | \$ 43,894,375 | \$ 2,992,613                | \$ 1,019,542 | \$ (1,488,803)                       | \$ (18,172,577) | \$ 28,245,150 |
| Private Placement (net of share issue costs totalling \$2,664,267) | 22,900,000       | 3,747,733     | –                           | 2,143,440    | –                                    | –               | 5,891,173     |
| Share-based compensation   | –                | –             | 576,984                     | –            | –                                    | –               | 576,984       |
| Comprehensive loss for period                                      | –                | –             | –                           | –            | 1,270,811                            | (4,821,280)     | (3,550,469)   |
| Balance at December 31, 2011                                       | 164,305,075      | \$ 47,642,108 | \$ 3,569,597                | \$ 3,162,982 | \$ (217,992)                         | \$ (22,993,857) | \$ 31,162,838 |
| Private Placement (net of share issue costs totalling \$1,853,889) | 27,025,000       | 3,551,111     | –                           | 1,475,375    | –                                    | –               | 5,026,486     |
| Share-based compensation   | –                | –             | 120,624                     | –            | –                                    | –               | 120,624       |
| Comprehensive loss for period                                      | –                | –             | –                           | –            | (535,512)                            | (800,774)       | (1,336,286)   |
| Balance at March 31, 2012  | 191,330,075      | \$ 51,193,219 | \$ 3,690,221                | \$ 4,638,357 | \$ (753,504)                         | \$ (23,794,631) | \$ 34,973,662 |

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2012 (all items are in Canadian dollars except as otherwise notes)

## 1/ NATURE AND CONTINUANCE OF OPERATIONS

Zincore Metals Inc. ("Zincore" or the "Company") is an exploration company focused on the identification, acquisition, exploration, evaluation and development of zinc and related base metals projects in the Americas. Its primary objective is to define economically feasible projects through focused exploration and to develop, joint venture, or sell properties of economic merit.

The Company was incorporated as Peru Zinc Corporation on September 21, 2005 in the Province of British Columbia. 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 address of the Company's registered office is Suite 450 – 1040 W. Georgia Street, Vancouver, BC, Canada V6E 4H1.

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.

Although Zincore has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for properties in the exploration stage, these procedures do not guarantee Zincore's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These condensed consolidated interim financial statements have been prepared on a going concern basis. Zincore does not generate cash flows from operations and accordingly, Zincore will need to raise additional funds through future issuance of securities. Although Zincore has been successful in raising funds in the past, there can be no assurance Zincore will be able to raise sufficient funds in the future, in which case Zincore may be unable to meet its obligations as they come due in the normal course of business. Zincore has not determined whether any of its properties contain mineral reserves that are economically recoverable. It is not possible to predict whether financing efforts will be successful or if Zincore will attain a profitable level of operations. Since inception, Zincore has incurred cumulative losses of \$23,794,631 as at March 31, 2012 and a comprehensive loss for the three months ended March 31, 2012 of \$1,336,286. These factors may cast significant doubt regarding Zincore's ability to continue as a going concern. Should Zincore be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts on the statements of financial position.

## 2/ BASIS OF PRESENTATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2011, with the exception of certain amendments to accounting standards issued by the IASB, which were applicable from January 1, 2012. These amendments did not have a significant impact on the Company's unaudited condensed interim consolidated financial statements.

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the



estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgements and estimates applied in preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in notes 2(o) and 2(p) to the Company's consolidated financial statements for the year ended December 31, 2011.

The Company's interim results are not necessarily indicative of its results for a full year.

#### Basis of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. All amounts are expressed in Canadian dollars, unless otherwise stated. The principal subsidiaries of Zincore and their geographic locations at March 31, 2012 were as follows:

|   | JURISDICTION | NATURE OF OPERATIONS |
|---|--------------|----------------------|
| Zincore Metals Inc.                     | Canada       | Holding company      |
| Polymex Resources Ltd.                  | Canada       | Holding company      |
| Nazca Minerals Ltd.                     | Bermuda      | Holding company      |
| Wari Minerals Limited                   | Bermuda      | Holding company      |
| Exploraciones Collasuyo S.A.C           | Peru         | Exploration company  |
| Exploraciones y Metales del Centro SACV | Mexico       | Exploration company  |
| Paracas Minerals Ltd.                   | Bermuda      | Holding company      |
| Exploraciones Antacollo S.A.C.          | Peru         | Exploration company  |

Intercompany transactions and balances between the Company and its subsidiaries are eliminated.

### 3/ CHANGES IN ACCOUNTING POLICIES

Certain new accounting standards and interpretations have been published that are not effective for the March 31, 2012 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

IFRS 9, Financial Instruments: effective for accounting periods commencing on or after January 1, 2015; and

IFRS 10, Consolidated Financial Statements: effective for accounting periods commencing on or after January 1, 2013;

IFRS 11, Joint Arrangements: effective for accounting periods commencing on or after January 1, 2013;

IFRS 12, Disclosure of Interests in Other Entities: effective for accounting periods commencing on or after January 1, 2013;

IFRS 13, Fair Value Measurement: effective for accounting periods commencing on or after January 1, 2013.

IAS 27 (2011), Consolidated and Separate Financial Statements: effective for accounting periods commencing on or after January 1, 2013;

IAS 28 (2011), Investments in Associates and Joint Ventures: effective for accounting periods commencing on or after January 1, 2013;

Amendments to IAS 1, Presentation of Items of Other Comprehensive Income: effective for accounting periods commencing on or after July 1, 2012.





#### 4/ MINERAL PROPERTIES

##### A) FOR THE THREE MONTHS ENDED MARCH 31, 2012:

|                                       | AZOD          | MINASCCASA | DOLORES     | TOTAL         |
|---------------------------------------|---------------|------------|-------------|---------------|
| Balance, January 1, 2012              | \$ 26,466,677 | \$ 316,399 | \$3,012,476 | \$ 29,795,552 |
| Property, acquisition and maintenance | –             | –          | 439         | 439           |
| Geophysics                            | –             | –          | 1,429       | 1,429         |
| Geology                               | 348,638       | –          | 42,396      | 391,034       |
| Drilling                              | 5,295         | –          | –           | 5,295         |
| Pre Feasibility                       | 4,371         | –          | –           | 4,371         |
| Project administration                | 187,038       | –          | 16,711      | 203,749       |
| Foreign exchange movement             | (459,825)     | (5,567)    | (52,894)    | (518,287)     |
| Balance, March 31, 2012               | \$ 26,552,194 | \$ 310,832 | \$3,020,556 | \$ 29,883,582 |

##### B) FOR THE YEAR ENDED DECEMBER 31, 2011:

|                                       | AZOD          | MINASCCASA | GATINEAU   | DOLORES      | TOTAL         |
|---------------------------------------|---------------|------------|------------|--------------|---------------|
| Balance, January 1, 2011              | \$ 18,418,412 | \$ 234,451 | \$ 543,149 | \$ 684,570   | \$ 19,880,582 |
| Property, acquisition and maintenance | 259,737       | 33,156     | 8,039      | 44,290       | 345,222       |
| Geophysics                            | 231,610       | –          | 77,945     | 113,413      | 422,968       |
| Geology                               | 2,248,707     | –          | 37,266     | 347,556      | 2,633,529     |
| Drilling                              | 2,639,323     | –          | 3,877      | 1,570,422    | 4,213,622     |
| Pre Feasibility                       | 1,278,156     | –          | –          | –            | 1,278,156     |
| Research                              | 23,891        | –          | –          | 31,278       | 55,169        |
| Project administration                | 725,316       | 41,232     | 23,526     | 130,686      | 920,760       |
| Impairment of mineral property        | –             | –          | (693,802)  | –            | (693,802)     |
| Foreign exchange movement             | 641,525       | 7,560      | –          | 90,261       | 739,346       |
| Balance, December 31, 2011            | \$ 26,466,677 | \$ 316,399 | \$ –       | \$ 3,012,476 | \$ 29,795,552 |

The Company holds a 100% interest in the AZOD, Dolores, and Minascassa.

In April 2010, the Company optioned a zinc land package in Quebec from Midland Exploration Inc. (the "Gatineau Property"). Zincore had the option to earn up to a 65% interest in the property by incurring exploration expenditures of \$3,500,000 (\$500,000 firm commitment) and making cash payments of \$180,000 or issuing an equivalent value in common shares. In order to earn the full 65% interest, Zincore must complete a feasibility study no later than eight years after the effective date of the agreement. During the third quarter of 2011, the Company decided to abandon this option and recognized an impairment of exploration expenditures totalling \$693,802.

#### 5/ 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. To date, no preferred shares have been issued.

##### B) CHANGES IN ISSUED SHARE CAPITAL AND RESERVES WERE AS FOLLOWS:

On March 16, 2012, the Company raised, by way of a non-brokered private placement, gross proceeds totalling \$5,405,000 by issuing 27,025,000 units at \$0.20 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole share purchase warrant



will entitle the holder to purchase one common share at \$0.30 for up to 2 years. These warrants were valued at \$1,475,375 by using the Black-Scholes options pricing model assuming no dividends are to be paid, volatility of 89%; risk free interest rate of 1.12%; and an estimated life of 2 years. The Company paid fees totalling \$378,514 in connection to this private placement.

On June 15, 2011, the Company completed a private placement by issuing 22,900,000 units at a price of \$0.28 per unit for gross proceeds of \$6,412,000. Each unit was comprised of one common share and one-half common share purchase warrant. The warrants are non-transferable and each whole warrant will entitle the holder to purchase one common share at a price of \$0.40 until June 15, 2014. These warrants were valued at \$2,061,000 by using the Black-Scholes option pricing model assuming no dividends are to be paid, volatility of 95%; risk free interest rate of 1.57%; and an estimated life of 3 years. A cash commission of 6% of the gross proceeds was paid and 687,000 agent warrants were issued. Each agent warrant entitles the holder to purchase one common share at \$0.41 per share until December 15, 2012. These warrants were valued at \$82,440 by using the Black-Scholes option pricing model assuming no dividends are to be paid, volatility of 95%; risk free interest rate of 1.57%; and an estimated life of 1.5 years.

### C) SHARE PURCHASE OPTION COMPENSATION PLAN

The Company has a share purchase 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, 2012, there were 9,028,331 share options outstanding, of which 7,288,325 were exercisable.

|                                    | AT MARCH 31, 2012 |                                 | AT DECEMBER 31, 2011 |                                 |
|------------------------------------|-------------------|---------------------------------|----------------------|---------------------------------|
|                                    | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS    | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of period | 9,833,663         | \$ 0.36                         | 7,347,000            | \$ 0.38                         |
| Granted                            | –                 | \$ –                            | 3,995,000            | \$ 0.36                         |
| Exercised                          | –                 | \$ –                            | (20,000)             | \$ 0.25                         |
| Forfeited                          | (805,332)         | \$ 0.36                         | (1,488,337)          | \$ 0.47                         |
| Outstanding at end of period       | 9,028,331         | \$ 0.34                         | 9,833,663            | \$ 0.36                         |
| Exercisable at end of period       | 7,288,325         | \$ 0.35                         | 7,706,992            | \$ 0.36                         |

| EXERCISE PRICE RANGE | NUMBER OF OPTIONS OUTSTANDING | WEIGHTED AVERAGE EXERCISE PRICE | WEIGHTED-AVERAGE REMAINING YEARS | NUMBER OF OPTIONS EXERCISABLE |
|----------------------|-------------------------------|---------------------------------|----------------------------------|-------------------------------|
| \$0.13-\$0.19        | 150,000                       | \$0.13                          | 1.4                              | 150,000                       |
| \$0.20-\$0.39        | 7,138,333                     | \$0.28                          | 3.3                              | 5,398,327                     |
| \$0.40-\$0.59        | 1,254,998                     | \$0.57                          | 3.6                              | 1,254,998                     |
| \$0.60-\$0.78        | 485,000                       | \$0.65                          | 3.2                              | 485,000                       |
|                      | 9,028,331                     | \$0.34                          | 3.3                              | 7,288,325                     |

As a result of share options vesting and the amortization of previous grants, during the three months ended March 31, 2012 the Company recognized \$120,624 (March 31, 2011 – \$310,775) as share-based compensation expense and recorded this amount in share based payment reserve. These amounts were recorded as follows:

|                                | THREE MONTHS ENDED MARCH 31, 2012 | THREE MONTHS ENDED MARCH 31, 2011 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Consulting and management fees | \$ 9,675                          | \$ 70,295                         |
| General exploration            | 27,098                            | 154,672                           |
| Salaries and benefits          | 83,851                            | 85,818                            |
| Total                          | \$ 120,624                        | \$ 310,785                        |



There were no share options granted during the first quarter of 2012. The amount expensed during the period represents the amortization of share-based compensation for grants issued in prior years. The value of the share options granted is determined using the Black-Scholes option pricing model. During the first quarter of 2011, the weighted average grant-date fair value of \$0.39 for each option granted was estimated using the following weighted average assumptions: no dividends are to be paid; volatility of 95%; risk free interest rate of 2.3%; and expected life of 3.5 years. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the share purchase options.

#### D) WARRANTS

As at March 31, 2012 the Company had the following warrants outstanding:

| AMOUNT            | EXERCISE PRICE | EXPIRY DATE       |
|-------------------|----------------|-------------------|
| 4,154,286         | \$ 0.45        | JULY 5, 2012      |
| 1,602,000         | \$ 0.48        | NOVEMBER 8, 2012  |
| 11,450,000        | \$ 0.40        | JUNE 15, 2014     |
| 687,000           | \$ 0.41        | DECEMBER 15, 2012 |
| 13,512,500        | \$ 0.30        | MARCH 16, 2014    |
| <b>31,405,786</b> |                |                   |

The warrants reserve represents the cumulative fair value of warrants issued and recognized in other comprehensive income. All warrants in the above table were outstanding as of December 31, 2011, except for the 13,512,500 warrants expiring on March 16, 2014 which were issued in March 2012.

#### 6/ INCOME TAX EXPENSE

Tax deductions related to funds raised in 2010 from an issue of flow through shares were renounced in 2011 and resulted in a deferred tax expense of \$131,000 being recorded.

#### 7/ 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:

|        | AT MARCH 31, 2012    | AT DECEMBER 31, 2011 |
|--------|----------------------|----------------------|
| Peru   | \$ 30,020,067        | \$ 30,094,955        |
| Canada | 27,619               | 27,719               |
| Total  | <b>\$ 30,047,686</b> | <b>\$ 30,122,674</b> |

#### 8/ RELATED PARTY TRANSACTIONS

The Company paid remuneration for management services to a company controlled by a director. Details of these related party transactions are as follows:

|  | THREE MONTHS ENDED<br>MARCH 31, 2012 | THREE MONTHS ENDED<br>MARCH 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Remuneration paid to a company controlled by a director for contracting services | \$ 57,345                            | \$ 86,028                            |

These amounts are recorded as consulting fees in the Condensed Consolidated Interim Statements of Comprehensive Loss.

#### 9/ LOSS PER SHARE

*Basic and diluted loss per share*



The calculation of basic and diluted loss per share for the three months ended March 31, 2012 was based on the loss attributable to common shareholders of \$800,774 (March 31, 2011 - \$1,815,808) and a weighted average number of common shares outstanding of 168,759,745 (March 31, 2011 - 141,404,186).

Diluted loss per share did not include the effect of 9,028,331 (March 31, 2011 – 7,987,000) share options and 31,405,786 (March 31, 2011 – 5,756,286) warrants as they are anti-dilutive.

## 10/ COMMITMENTS

The Company's material contractual obligations are for an office sub-lease entered into in September 2010 and expiring in September 2017.

|                             | TOTAL      | 2012       | 2013       | 2014       | 2015       | 2016-2017  |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| Operating lease obligations | \$ 943,075 | \$ 127,397 | \$ 172,146 | \$ 173,516 | \$ 176,256 | \$ 293,760 |

In March 2012 the Company signed an agreement to sublease its current office space until September 2017 which will enable it to fully offset the remaining commitment relating to its operating lease obligations. The agreement became effective on April 15, 2012.

## 11/ MANAGEMENT OF CAPITAL RISK

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued capital, reserves 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.

## 12/ 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 and price risk (including currency and interest rate 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 Board has not approved the use of derivative financial products.

### A) FAIR VALUE ESTIMATION

The fair values of the Company's cash and cash equivalents, prepaids, exploration advances and other receivables and accounts payable approximate their carrying values due to their short term nature. The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk with respect to currency risk and interest risk.

### 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, and Mexico. All accounts are held at commercial banks with credit ratings of A or higher. As a result the Company does not believe their credit risk is significant.



### 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 considerable discretion to reduce or increase exploration plans or budgets depending on current or projected liquidity. When appropriate, the Company will seek joint venture partners in order to fund or share in the funding of its exploration properties to minimize shareholder risk.

As discussed in Note 5, during the past nine months the Company has raised gross proceeds of approximately \$11.8 million by completing two private placements of common shares. However, as a result of current market conditions, it has become increasingly difficult for exploration stage companies to raise capital. Given the recent financing completed in March 2012, the Company is revising its budget for the rest of 2012. As at March 31, 2012, cash resources totalled \$5,356,272. The Company is continuously evaluating alternatives in order to raise additional capital to increase liquidity but there is no certainty that additional capital will be raised.

### 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 properties. 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 increase the net loss by approximately \$48,524 over the next nine months with a 10% strengthening having the opposite effect.

Assuming a similar rate of mineral property expenditures incurred during the last quarter of 2011, a 10% weakening of the Canadian dollar relative to the U.S. dollar would increase budgeted deferred mineral property expenditures over the next nine months by approximately \$432,000 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 1% decrease in short term rates would decrease interest income and increase net loss of the Company by approximately \$28,000 over the next nine months.