

ZINCORE METALS INC.



For the Three and Six Months Ended  
June 30, 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	JUNE 30, 2012	DECEMBER 31, 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,972,707	\$ 2,018,821
Prepays, advances and other receivables	105,599	88,719
	7,078,306	2,107,540
Non-current assets		
Exploration advances and other receivables	2,785	162,410
Property, plant, and equipment	156,268	164,712
Mineral properties (note 4)	31,735,329	29,795,552
	31,894,382	30,122,674
<b>Total Assets</b>	<b>\$ 38,972,688</b>	<b>\$ 32,230,214</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 548,405	\$ 1,067,376
Non-current liabilities		
Long- term obligation (note 10)	48,642	–
<b>Total Liabilities</b>	597,047	1,067,376
Equity		
Share capital (note 5)	54,828,719	47,642,108
Reserves	8,251,529	6,514,587
Deficit	(24,704,607)	(22,993,857)
	38,375,641	31,162,838
<b>Total Equity and Liabilities</b>	<b>\$ 38,972,688</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 JUNE 30, 2012	THREE MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
<b>Expenses</b>				
General exploration	\$ 257,276	\$ 464,484	\$ 495,779	\$ 1,232,998
Salaries and benefits	194,362	340,372	440,887	673,197
Consulting and management fees	156,082	166,106	269,135	352,430
Office expense	156,868	154,193	266,567	289,020
Travel	5,711	15,530	26,588	144,163
Shareholder information	79,806	45,955	128,192	137,399
Legal and accounting	66,410	51,771	91,514	94,824
Foreign exchange loss(gain)	1,290	(3,090)	3,826	17,010
Depreciation	2,163	1,938	4,112	3,881
Loss before undernoted item	(919,968)	(1,237,259)	(1,726,600)	(2,944,922)
Interest and other income	9,992	11,023	15,850	33,878
Loss before income taxes	(909,976)	(1,226,236)	(1,710,750)	(2,911,044)
Income tax expense (note 6)	-	-	-	131,000
Loss for the period	(909,976)	(1,226,236)	(1,710,750)	(3,042,044)
Other comprehensive loss:				
Foreign currency translation differences in foreign operations	608,893	(219,396)	73,381	(724,473)
Total comprehensive loss	\$ (301,083)	\$ (1,445,632)	\$ (1,637,369)	\$ (3,766,517)
Loss per share - basic and diluted (note 9)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



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

IN CANADIAN DOLLARS

	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
<b>Operating Activities</b>		
Loss before income taxes	\$ (1,710,750)	\$ (2,911,044)
Items not involving cash:		
Depreciation	4,112	3,881
Share-based compensation (note 5)	188,186	480,272
Interest income	(14,650)	(33,878)
	(1,533,102)	(2,460,769)
Change in non-cash operating working capital items:		
(Increase)decrease in prepaids, advances and other receivables	(16,881)	21,812
Decrease in accounts payable and accrued liabilities	(465,729)	(4,494)
Cash used in operating activities	(2,015,712)	(2,443,451)
<b>Investing Activities</b>		
Additions to property, plant and equipment	(10,202)	(47,837)
Mineral property expenditures	(1,746,958)	(6,722,505)
Cash used in investing activities	(1,757,160)	(6,770,342)
<b>Financing Activities</b>		
Shares and warrants issued	8,661,986	5,978,060
Long-term obligation	48,642	-
Interest received	14,650	33,878
Cash provided by financing activities	8,725,278	6,011,938
Effects of exchange rate change on cash and cash equivalents held in a foreign currency	1,480	(19,093)
Increase(decrease) in cash and cash equivalents during the period	4,953,886	(3,220,948)
Cash and cash equivalents at beginning of period	2,018,821	10,302,450
Cash and cash equivalents at end of period	\$ 6,972,707	\$ 7,081,502
Cash and cash equivalents consist of:		
Cash	1,572,707	7,024,002
Short-term investments	5,400,000	57,500
	\$ 6,972,707	\$ 7,081,502



## 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
Private Placement (net of share issue costs totalling \$603,267)	22,900,000	3,747,733	–	2,143,440	–	–	5,891,173
Shares issued for cash on exercise of share options	20,000	7,987	(2,987)	–	–	–	5,000
Share-based compensation	–	–	480,272	–	–	–	480,272
Comprehensive loss for period	–	–	–	–	(724,473)	(3,042,044)	(3,766,517)
Balance at June 30, 2011	164,305,075	\$ 47,642,108	\$ 3,162,100	\$ 3,162,982	\$ (1,708,199)	\$ (19,398,813)	\$ 32,860,178
Share-based compensation	–	–	407,497	–	–	–	407,497
Comprehensive loss for period	–	–	–	–	1,490,207	(3,595,044)	(2,104,837)
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 Placements (net of share issue costs totalling \$565,789)	46,138,874	7,186,611	–	1,475,375	–	–	8,661,986
Share-based compensation	–	–	188,186	–	–	–	188,186
Comprehensive loss for period	–	–	–	–	73,381	(1,710,750)	(1,637,369)
Balance at June 30, 2012	210,443,949	\$ 54,828,719	\$ 3,757,783	\$ 4,638,357	\$ (144,611)	\$ (24,704,607)	\$ 38,375,641

See accompanying Notes to the Condensed Consolidated Interim Financial Statements



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

For the three and six months ended June 30, 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 \$24,704,607 as at June 30, 2012 and a total comprehensive loss for the six months ended June 30, 2012 of \$1,637,369. 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.

These financial statements were authorized for issue by the Company's Board of Directors on August 2, 2012.

### 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 June 30, 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 June 30, 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 SIX MONTHS ENDED JUNE 30, 2012:

	AZOD	MINASCCASA	DOLORES	TOTAL
Balance, January 1, 2012	\$ 26,466,677	\$ 316,399	\$ 3,012,476	\$ 29,795,552
Property, acquisition and maintenance	203,907	33,788	8,263	245,958
Geophysics	–	–	3,699	3,699
Geology	560,569	–	171,768	732,337
Drilling	8,768	–	2,835	11,603
Pre Feasibility	213,253	–	–	213,253
Project administration	479,560	–	181,552	661,112
Foreign exchange movement	59,529	1,109	11,177	71,815
Balance, June 30, 2012	\$ 27,992,263	\$ 351,296	\$ 3,391,770	\$ 31,735,329

##### 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 <sup>1</sup>	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

<sup>1</sup>Includes cost of a Preliminary Economic Assessment.

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

On May 8, 2012, the Company entered into a strategic partnership with First Quantum Minerals Ltd. (“First Quantum”). Under the terms of a Memorandum of Understanding (“MOU”) a wholly-owned subsidiary of First Quantum made a strategic investment in the Company discussed in note 5. As well, First Quantum can earn up to an 80% interest in Zincore’s Dolores copper porphyry project by funding the advancement of the project through exploration, and if warranted, development and production. Details of the funding/earn-in structure are as follows:

- First and Second Earn-Ins: First Quantum commits to spend US\$3 million at Dolores within one year of signing a formal agreement (the “Formal Agreement Date”) to earn an unvested 30% interest in Dolores
  - 30% interest will vest if First Quantum provides written notice (the “Vesting Notice”) within 60 days of the first anniversary of the Formal Agreement Date that it will commit to spend an additional US\$5 million (the “Second Earn-In”) within 18 months of the Vesting Notice. After the additional US \$5 million is spent, First Quantum will have earned a 50.1% interest in the Dolores project.
  - Zincore will be the operator until First Quantum has fulfilled the requirements of the Second Earn-In with oversight from First Quantum by way of a technical committee.



- Third Earn-In: First Quantum can earn an additional 9.9% in Dolores by producing a NI-43-101 compliant Indicated resource estimate (and associated technical report) of more than one million tonnes of contained copper at a 0.20% cut-off grade within three years following the Vesting Notice.
- Fourth Earn-In: First Quantum will have the option to earn an additional 10% of Dolores by providing within four years of the Vesting Notice studies in sufficient detail that under industry customs a fully informed construction decision can be made.
- Fifth earn-In: First Quantum can acquire an additional 10% interest in Dolores provided that commercial production at Dolores commences within 96 months of the Formal Agreement Date. First Quantum will be responsible for funding all costs associated with construction of a mine and bringing the Dolores Area to commercial production including Zincore's share of capital expenditures for construction.

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 May 10, 2012, under the terms of the MOU disclosed in note 4, First Quantum purchased, by way of a private placement, 19,113,874 common shares of the Company at a price \$0.20 per share for gross proceeds totalling \$3,822,775. Zincore will conduct a regional exploration program on its concessions using a minimum of 60% of these private placement funds, including a minimum of US\$1.0 million in the 12 months following closing of the private placement. The Company paid fees totalling \$187,275 in connection to this private placement.

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 June 30, 2012, there were 8,699,998 share options outstanding, of which 7,849,997 were exercisable.



	SIX MONTHS ENDED JUNE 30, 2012		YEAR ENDED 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	(1,133,665)	\$ 0.52	(1,488,337)	\$ 0.47
Outstanding at end of period	8,699,998	\$ 0.33	9,833,663	\$ 0.36
Exercisable at end of period	7,849,997	\$ 0.34	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	1.1	150,000
\$0.20-\$0.39	7,060,000	\$0.28	3.1	6,209,994
\$0.40-\$0.59	1,054,998	\$0.57	3.4	1,055,003
\$0.60-\$0.78	435,000	\$0.65	2.9	435,000
	8,699,998	\$0.34	3.1	7,849,997

As a result of share options vesting and the amortization of previous grants, during the three and six months ended June 30, 2012 the Company recognized \$67,562 (June 30, 2011 – \$169,487) and \$188,186 (June 30, 2011 - \$480,272) as share-based compensation expense and recorded this amount in share based payment reserve. These amounts were recorded as follows:

	THREE MONTHS ENDED JUNE 30, 2012	THREE MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
Consulting and management fees	\$ 5,375	\$ 40,321	\$ 15,050	\$ 110,616
General exploration	13,813	89,749	40,911	244,420
Salaries and benefits	48,374	39,417	132,225	125,236
Total	\$ 67,562	\$ 169,487	\$ 188,186	\$ 480,272

There have been no share options granted during 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 six months ended June 30, 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 June 30, 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
31,405,786		

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 in 2011.

## 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 JUNE 30, 2012	AT DECEMBER 31, 2011
Peru	\$ 31,863,321	\$ 30,094,955
Canada	31,061	27,719
Total	\$ 31,894,382	\$ 30,122,674

## 8/ RELATED PARTY TRANSACTIONS

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

	THREE MONTHS ENDED JUNE 30, 2012	THREE MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
Remuneration paid to a company controlled by a director for contracting services	\$ 142,455	\$ 87,164	\$ 199,800	\$ 173,192

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 and six months ended June 30, 2012 was based on the loss attributable to common shareholders of \$909,976 (June 30, 2011 - \$1,226,236) and \$1,710,750 (June 30, 2011 - \$3,042,044), respectively. The weighted average number of common shares outstanding for the same periods were 202,042,246 (June 30, 2011 - 145,179,800) and 185,400,996 (June 30, 2011 - 143,302,423).

Diluted loss per share did not include the effect of 8,699,998 (June 30, 2011 - 7,987,000) share options and 31,405,786 (June 30, 2011 - 17,893,286) 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	\$ 901,066	\$ 85,388	\$ 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. Pursuant to that agreement the Company collected a three month damage deposit and recorded it as a long-term obligation.



## 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 six months the Company has raised gross proceeds of approximately \$9.2 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. As at June 30, 2012, cash resources totalled \$6,972,707. 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



he 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 \$22,000 over the next six 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 six months by approximately \$350,000 with the opposite effect of a 10% strengthening. A 10% fluctuation 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 \$22,500 over the next six months.