



**Zincore Metals Inc.**

2008 Annual Report

## AUDITOR'S REPORT & FINANCIAL STATEMENTS

### **AUDITOR'S REPORT**

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### **CONSOLIDATED FINANCIAL STATEMENTS**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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## AUDITORS' REPORT

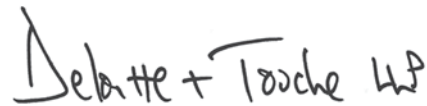
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TO THE SHAREHOLDERS OF ZINCORE METALS INC.

We have audited the consolidated balance sheets of Zincore Metals Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, British Columbia

March 9, 2009

## CONSOLIDATED BALANCE SHEETS

|  | DECEMBER 31, 2008 | DECEMBER 31, 2007 |
|--|-------------------|-------------------|
| <b>ASSETS</b>                              |                   |                   |
| Current                                    |                   |                   |
| Cash and cash equivalents                  | \$ 1,255,676      | \$ 8,395,468      |
| Prepays, advances and other receivables    | 234,275           | 157,176           |
|  | 1,489,951         | 8,552,644         |
| Other assets                               | 20,997            | 65,435            |
| Exploration advances and other receivables | 4,875             | 141,888           |
| Property, plant, and equipment (note 4)    | 155,944           | 229,810           |
| Mineral properties (note 5)                | 15,545,783        | 11,873,927        |
|  | \$ 17,217,550     | \$ 20,863,704     |
| <b>LIABILITIES</b>                         |                   |                   |
| Current                                    |                   |                   |
| Accounts payable and accrued liabilities   | \$ 181,040        | \$ 379,089        |
| Due to affiliated companies (note 9)       | 742               | 11,046            |
|  | 181,782           | 390,135           |
| <b>SHAREHOLDERS' EQUITY</b>                |                   |                   |
| Share capital (note 6)                     | 23,961,364        | 23,961,364        |
| Contributed surplus                        | 1,636,125         | 1,359,234         |
| Deficit                                    | (8,561,721)       | (4,847,029)       |
|  | 17,035,768        | 20,473,569        |
|  | \$ 17,217,550     | \$ 20,863,704     |

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

APPROVED BY THE BOARD



TIMO JAURISTO



W. DAVID BLACK

## CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

|   | YEAR ENDED<br>DECEMBER 31, 2008 | YEAR ENDED<br>DECEMBER 31, 2007 |
|---|---------------------------------|---------------------------------|
| <b>EXPENSES</b>                               |                                 |                                 |
| General exploration                           | \$ 1,109,277                    | \$ 1,245,207                    |
| Consulting and management fees                | 677,164                         | 998,469                         |
| Office expense                                | 488,381                         | 614,628                         |
| Legal and accounting                          | 203,937                         | 124,104                         |
| Shareholder information                       | 197,231                         | 150,513                         |
| Travel  | 69,029                          | 53,992                          |
| Amortization                                  | 11,787                          | 8,231                           |
| Mineral property costs written off (note 5)   | 1,299,009                       | 2,611                           |
| Loss on sale of property, plant and equipment | 10,082                          | —                               |
| Foreign exchange (gain) loss                  | (222,003)                       | 451,396                         |
| Loss before undernoted item                   | (3,843,894)                     | (3,649,151)                     |
| Interest and other income                     | 129,202                         | 497,150                         |
| Net and comprehensive loss for the year       | \$ (3,714,692)                  | \$ (3,152,001)                  |
| Deficit, beginning of year                    | (4,847,029)                     | (1,695,028)                     |
| Deficit, end of year                          | \$ (8,561,721)                  | \$ (4,847,029)                  |
| Loss per share - basic and diluted            | \$ (0.05)                       | \$ (0.04)                       |
| Weighted average number of shares outstanding | 79,124,833                      | 77,251,683                      |

See accompanying Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CASHFLOWS

|   | YEAR ENDED<br>DECEMBER 31, 2008 | YEAR ENDED<br>DECEMBER 31, 2007 |
|---|---------------------------------|---------------------------------|
| <b>OPERATING ACTIVITIES</b>   |                                 |                                 |
| Net loss for the year   | \$ (3,714,692)                  | \$ (3,152,001)                  |
| Items not involving cash:   |                                 |                                 |
| Mineral property costs written off  | 1,299,009                       | 2,611                           |
| Loss on property, plant, and equipment  | 10,082                          | –                               |
| Depreciation  | 11,787                          | 8,231                           |
| Stock-based compensation  | 276,891                         | 941,723                         |
|   | (2,116,923)                     | (2,199,436)                     |
| Change in non-cash operating working capital:   |                                 |                                 |
| Decrease (increase) in advances and other receivables                                   | 87,227                          | (20,041)                        |
| Increase (decrease) in accounts payable and accrued liabilities                         | 10,938                          | (98,858)                        |
| Cash used in operating activities   | (2,018,758)                     | (2,318,335)                     |
| <b>INVESTING ACTIVITIES</b>   |                                 |                                 |
| Dispositions of (additions to) property, plant and equipment                            | 9,035                           | (163,964)                       |
| Mineral property expenditures   | (5,267,906)                     | (8,057,376)                     |
| Cash used in investing activities   | (5,258,871)                     | (8,221,340)                     |
| <b>FINANCING ACTIVITY</b>   |                                 |                                 |
| Shares issued   | –                               | 1,263,051                       |
| Cash provided by financing activity   | –                               | 1,263,051                       |
| Effects of exchange rate change on cash and cash equivalents held in a foreign currency | 137,837                         | –                               |
| Decrease in cash and cash equivalents during the year                                   | (7,139,792)                     | (9,276,624)                     |
| Cash and cash equivalents at beginning of year  | 8,395,468                       | 17,672,092                      |
| Cash and cash equivalents at end of year  | \$ 1,255,676                    | \$ 8,395,468                    |
| Cash and cash equivalents consist of:   |                                 |                                 |
| Cash  | \$ 1,232,676                    | \$ 2,436,910                    |
| Short-term investments  | 23,000                          | 5,958,558                       |
|   | \$ 1,255,676                    | \$ 8,395,468                    |
| Non-cash investing and financing item:  |                                 |                                 |
| Interest paid   | \$ 112                          | \$ 244                          |
| Interest received   | \$ 128,196                      | \$ 477,616                      |

See accompanying Notes to Consolidated Financial Statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

## 1/ 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.

Current market conditions make the present environment for raising additional equity financing unfavourable. 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.

## 2/ CHANGE IN ACCOUNTING POLICIES

Effective as at January 1, 2008, the Company adopted the following presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: revised Handbook Section 1400, General Standards of Financial Statement Presentation ("Section 1400"), Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1400 now requires management to make an assessment as to the Company's ability to continue as a going concern. In making this assessment management takes into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Disclosure is required of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by Section 1535 in note 10 of these consolidated financial statements.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by Sections 3862 and 3863 in note 11 of these consolidated financial statements.

**3/ SIGNIFICANT ACCOUNTING POLICIES****A) BASIS OF PRESENTATION**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. The Company assessed variable interest entities and identified none. All intercompany balances and transactions have been eliminated upon consolidation.

**B) MEASUREMENT UNCERTAINTY**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates where management's judgment is applied include asset valuations, income taxes, stock-based compensation and contingent liabilities. Actual results may differ from those estimates.

**C) FINANCIAL INSTRUMENTS**

The Company classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), available-for-sale (assets), loans and receivables, held-to-maturity (assets) and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

The Company has designated its cash and cash equivalents as held-for-trading. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable are classified as other liabilities, which are measured at amortized cost.

**D) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include those short-term money market instruments which, on acquisition, have a term to maturity of three months or less.

**E) MINERAL PROPERTIES**

Mineral properties and related exploration and development costs are recorded at cost on a property-by-property basis. Costs incurred for general exploration that are not project specific or do not result in the acquisition of mineral properties and preliminary exploration to assess mineral properties are expensed as incurred. Management periodically reviews the underlying value of mineral properties. If impairment is determined to exist, the mineral property will be written down to its net realizable value. The recoverability of the amounts capitalized for mineral properties is dependent upon the delineation of economically recoverable mineral reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. It is reasonably possible that changes could occur that would adversely affect management's estimates and, therefore, result in future write-downs of capitalized mineral property amounts.

**F) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are recorded at cost. Amortization is computed using the declining-balance method based on annual rates as follows:

|                            |                            |
|----------------------------|----------------------------|
| Office and other equipment | 20%                        |
| Computer equipment         | 30%                        |
| Leasehold Improvements     | straight-line over 4 years |
| Vehicles                   | 30%                        |

**G) ASSET RETIREMENT OBLIGATION**

The Company follows the CICA's Handbook Section 3110 "Asset Retirement Obligations" which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. Management has determined that it has no asset retirement obligations at this time. The asset retirement cost will be subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability will be accreted, by charges to operations, to its estimated normal future value.

#### H) FUTURE INCOME TAXES

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. These future taxes are measured by the provisions of currently enacted or substantively enacted tax laws. Management believes that it is not sufficiently likely that the Company will generate sufficient taxable income to allow the realization of future tax assets and therefore the Company has provided a full valuation allowance for these tax assets.

#### I) FOREIGN CURRENCY TRANSLATION

The Company's functional currency is the Canadian dollar. The Company's foreign subsidiaries are considered to be integrated operations. Accordingly, the Company utilizes the temporal method to translate the financial statements of these subsidiaries into Canadian dollars. All foreign currencies are translated into Canadian dollars using weighted average rates for the period for items included in the consolidated statements of loss, comprehensive loss and deficit, the rate in effect at the balance sheet date for monetary assets and liabilities, and historical rates for other assets included in the consolidated balance sheets. Translation gains or losses are included in the determination of income.

#### J) STOCK-BASED COMPENSATION

Compensation expense for stock options granted is determined based on the estimated fair value of the stock options at the time of grant, the cost of which is recognized over the vesting periods of the respective stock options. The fair value of all stock-based awards is estimated using the Black-Scholes model.

#### K) LOSS PER SHARE

Loss per share is computed by dividing net loss (the numerator) by the weighted average number of outstanding common shares for the period (the denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants using the treasury stock method. In periods where a net loss is reported, fully diluted loss per share is not presented, as it is anti-dilutive.

#### L) RECENT ACCOUNTING PRONOUNCEMENTS

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 will 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 at the same time.

**4/ PROPERTY, PLANT AND EQUIPMENT**

|                            | 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            |
|                            | <b>\$ 250,530</b>       | <b>\$ 94,586</b>         | <b>\$ 155,944</b> |

|                            | AS AT DECEMBER 31, 2007 |                          |                   |
|----------------------------|-------------------------|--------------------------|-------------------|
|                            | COST                    | ACCUMULATED AMORTIZATION | NET BOOK VALUE    |
| Office and other equipment | \$ 103,436              | \$ 17,061                | \$ 86,375         |
| Computer equipment         | 133,174                 | 29,646                   | 103,528           |
| Leasehold improvements     | 6,177                   | 891                      | 5,286             |
| Vehicles                   | 61,941                  | 27,320                   | 34,621            |
|                            | <b>\$ 304,728</b>       | <b>\$ 74,918</b>         | <b>\$ 229,810</b> |

Amortization relating to exploration related assets in the amount of \$42,962 (2007- \$46,790) has been allocated to mineral properties during the year.

**5/ MINERAL PROPERTIES**

## A) For the year ended December 31, 2008:

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

## B) For the year ended December 31, 2007:

|                                       | ACCHA-YANQUE         | MINASCCASA        | SAYANI           | CONDORINI         | TOTAL                |
|---------------------------------------|----------------------|-------------------|------------------|-------------------|----------------------|
| Balance, beginning of period          | \$ 3,082,814         | \$ 737,568        | \$ 55,393        | \$ 16,171         | \$ 3,891,946         |
| Property, acquisition and maintenance | 10,219               | 12,217            | –                | 38,475            | 60,911               |
| Analytical                            | 208,920              | –                 | –                | 1,387             | 210,307              |
| Geology                               | 1,295,620            | –                 | –                | 45,286            | 1,340,906            |
| Drilling                              | 3,867,922            | –                 | –                | –                 | 3,867,922            |
| Technical and engineering             | 1,938,490            | –                 | –                | –                 | 1,938,490            |
| Research                              | 33,691               | –                 | –                | –                 | 33,691               |
| Project administration                | 526,430              | 1,046             | –                | 4,889             | 532,365              |
| Property costs written off            | (2,611)              | –                 | –                | –                 | (2,611)              |
| Balance, end of period                | <b>\$ 10,961,495</b> | <b>\$ 750,831</b> | <b>\$ 55,393</b> | <b>\$ 106,208</b> | <b>\$ 11,873,927</b> |

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

In February 2007, the Company entered into agreements to earn an interest in the Cerro Condorini property from Brett Resources Inc. During the second quarter of 2008, the Company completed its initial exploration and expenditure requirements under the agreements and drilled eight diamond drill holes on the property. Based on the results of the work completed, Zincore decided to terminate the agreements and, as a result, all deferred mineral property expenditures relating to the Condorini property were written off in the second quarter of 2008.

In December 2008 the Company wrote-off deferred mineral property expenditures relating to its Minascassa property and certain early stage properties in Peru and Chile. The carrying value of Minascassa 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 Minascassa 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<br>COMMON SHARES | AMOUNT        | CONTRIBUTED<br>SURPLUS |
|-----------------------------|----------------------------|---------------|------------------------|
| <b>AT JANUARY 1, 2007</b>   | 76,600,000                 | \$ 22,287,531 | \$ 828,294             |
| Exercise of warrants        | 2,470,000                  | 1,630,200     | (395,200)              |
| Exercise of options         | 54,833                     | 43,633        | (15,583)               |
| Stock-based compensation    | –                          | –             | 941,723                |
| <b>AT DECEMBER 31, 2007</b> | 79,124,833                 | \$ 23,961,364 | \$ 1,359,234           |
| Stock-based compensation    | –                          | –             | 276,891                |
| <b>AT DECEMBER 31, 2008</b> | 79,124,833                 | \$ 23,961,364 | \$ 1,636,125           |

### 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 December 31, 2008 there were 5,291,992 stock options outstanding, of which 4,633,983 are exercisable.

|                                  | AT DECEMBER 31, 2008 |                                    | AT DECEMBER 31, 2007 |                                    |
|----------------------------------|----------------------|------------------------------------|----------------------|------------------------------------|
|                                  | NUMBER OF<br>OPTIONS | WEIGHTED AVERAGE<br>EXERCISE PRICE | NUMBER OF<br>OPTIONS | WEIGHTED AVERAGE<br>EXERCISE PRICE |
| Outstanding at beginning of year | 5,013,000            | \$ 0.59                            | 3,098,000            | \$ 0.50                            |
| Granted                          | 1,488,000            | \$ 0.27                            | 2,146,000            | \$ 0.72                            |
| Exercised                        | –                    | –                                  | (54,833)             | \$ 0.51                            |
| Forfeited                        | (1,209,008)          | \$ 0.60                            | (176,167)            | \$ 0.54                            |
| Outstanding at end of year       | 5,291,992            | \$ 0.50                            | 5,013,000            | \$ 0.59                            |
| Exercisable at end of year       | 4,633,983            | \$ 0.53                            | 3,149,977            | \$ 0.57                            |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| EXERCISE PRICE RANGE | NUMBER OF OPTIONS OUTSTANDING | NUMBER OF OPTIONS EXERCISABLE | WEIGHTED-AVERAGE REMAINING YEARS |
|----------------------|-------------------------------|-------------------------------|----------------------------------|
| \$0.13 - \$0.19      | 450,000                       | 150,000                       | 4.6                              |
| \$0.20 - \$0.39      | 819,326                       | 594,653                       | 4.2                              |
| \$0.40 - \$0.59      | 2,534,000                     | 2,534,000                     | 2.8                              |
| \$0.60 - \$0.79      | 1,483,666                     | 1,350,330                     | 3.3                              |
| \$0.80 - \$0.89      | 5,000                         | 5,000                         | 3.5                              |
| \$0.13 - \$0.89      | 5,291,992                     | 4,633,983                     | 3.3                              |

As a result of stock options vesting and the amortization of previous grants during the year ended December 31, 2008, the Company recognized \$276,891 (2007 – \$941,723) as stock-based compensation expense and recorded this amount in contributed surplus. These amounts were recorded as follows:

|                                | YEAR ENDED DECEMBER 31, 2008 | YEAR ENDED DECEMBER 31, 2007 |
|--------------------------------|------------------------------|------------------------------|
| Consulting and management fees | \$ 86,281                    | \$ 422,007                   |
| General exploration            | 100,986                      | 298,905                      |
| Office expense                 | 89,624                       | 220,811                      |
| Total                          | \$ 276,891                   | \$ 941,723                   |

The value of the stock options granted during the year ended December 31, 2008 and 2007 was determined using the Black-Scholes option pricing model. The weighted average grant-date fair value of \$0.15 (2007 - \$0.36) for each option granted was estimated using the following weighted average assumptions: no dividends are to be paid; volatility of 79% (2007 – 70%); risk free interest rate of 3.3% (2007 – 4.1%); and expected life of 3.5 years (2007 – 3.5 years).

## 7/ INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

|   | DECEMBER 31, 2008 | DECEMBER 31, 2007 |
|---|-------------------|-------------------|
| Canadian statutory income tax rate                  | 31%               | 34%               |
| Recovery of income taxes computed at statutory rate | \$ 1,151,555      | \$ 1,075,000      |
| Non-deductible expenses                             | (99,901)          | (340,000)         |
| Effect of lower tax rates of foreign jurisdictions  | (148,881)         | (105,000)         |
| Rate changes and others                             | (98,846)          | –                 |
| Change to valuation allowance                       | (803,926)         | (630,000)         |
| Income tax provision                                | \$ –              | \$ –              |

The appropriate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

|   | DECEMBER 31, 2008 | DECEMBER 31, 2007 |
|---|-------------------|-------------------|
| Operating loss carry forwards           | \$ 1,982,018      | \$ 1,060,000      |
| Share issue costs                       | 228,414           | 343,000           |
| Excess of book over tax value of assets | 5,495             | 9,000             |
| Less: Valuation allowance               | (2,215,926)       | (1,412,000)       |
| Net future income tax liability         | \$ –              | \$ –              |

At December 31, 2008 the Company had loss carry forwards available for tax purposes totalling \$4,029,188 in Canada expiring in 2026, 2027, and 2028, \$2,953,829 in Peru, and \$63,024 in Chile.

At December 31, 2007 the Company had loss carry forwards available for tax purposes totalling \$2,519,000 in Canada expiring in 2026 and 2027 and \$1,252,761 in Peru, and \$23,646 in Chile.

## 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:

|        | AT DECEMBER 31, 2008 | AT DECEMBER 31, 2007 |
|--------|----------------------|----------------------|
| Peru   | \$ 15,539,841        | \$ 12,201,014        |
| Chile  | 101,581              | –                    |
| Canada | 58,808               | 110,046              |
| Mexico | 27,369               | –                    |
|        | <u>\$ 15,727,599</u> | <u>\$ 12,311,060</u> |

## 9/ RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008 and 2007, the Company paid Southwestern Resources Corp. (“Southwestern”) and Southwestern’s subsidiary under the terms of two separate administrative services agreements for certain accounting, corporate secretarial and administrative services in Canada and Peru. In addition, during the same periods, the Company paid remuneration for management services to a company controlled by a director in common as follows:

|   | YEAR ENDED<br>DECEMBER 31, 2008 | YEAR ENDED<br>DECEMBER 31, 2007 |
|---|---------------------------------|---------------------------------|
| Administrative services agreements                      | \$ 188,307                      | \$ 249,498                      |
| Remuneration paid to a company controlled by a director | \$ 164,900                      | \$ 145,000                      |

As at December 31, 2008, there was an amount owing to Southwestern and its subsidiary totalling \$742 (2007 - \$11,046) for miscellaneous services provided outside of the scope of the administrative services agreements. All related party transactions are measured at the exchange amount which is the consideration agreed to between the parties.

## 10/ MANAGEMENT OF CAPITAL RISK

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

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

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

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

See note 11 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, Bermuda, Chile and Mexico. All accounts are held at commercial banks with credit ratings of A or higher.

The Company withdrew the majority of its cash and cash equivalents from its bank accounts in Bermuda and repatriated the funds to accounts in Canada to insulate Zincore from the credit risk of the Bermuda bank that held its deposits.

The Company applied for and was approved for early recovery of Impuesto General A Las Ventas ("IGV") on certain exploration expenditures in Peru. IGV is a value added tax which is charged at a rate of 19% on all goods and services. At December 31, 2008, the Company has recorded an IGV receivable of approximately \$120,000 (December 31, 2007 - \$115,000) paid on qualifying expenditures. The Company's initial applications for recovery of IGV were processed and in the fourth quarter of 2008 and the Company received approximately \$250,000. As result the receivable has been reclassified from non-current to current. The IGV is receivable from the government of Peru. Should the early IGV recovery scheme be altered or terminated, IGV would be recoverable in the future as a credit against products sold from any mining operations.

**C) LIQUIDITY RISK**

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

The Company's liquidity position has deteriorated significantly since the beginning of the year due to ongoing exploration, development and corporate costs combined with no capital raisings during this period. Current market conditions due to low zinc prices and the global credit crisis are not supportive of equity financings for junior exploration and development companies like Zincore. As a result, the Company has significantly reduced its exploration and corporate budgets for 2009 to reduce spending and preserve liquidity.

Total budgeted cash expenditures for 2009 on corporate costs, exploration and technical work, excluding IGV recovery, is \$1.2 million with the first quarter of 2009 having the highest budgeted level of spending. The Company is currently evaluating alternatives to raise additional capital to increase liquidity but there is no certainty that additional capital will be raised.

All significant exploration activities have ceased in order to preserve the asset portfolio and provide time for the junior equity financing market to improve. Management expects that, under these conditions, the Company will continue to operate through 2009.

**D) CURRENCY RISK**

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

A 10% weakening in the Canadian dollar relative to the U.S. dollar would decrease the net loss by approximately \$19,000 during 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 \$18,000 during 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. A one percent decrease in short term rates would decrease interest income and increase net loss of the Company by approximately \$5,500 during 2009.