

**ZINCO MINING CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**  
*(Unaudited)*

**ZINCO MINING CORPORATION**

#205 – 16055 Fraser Highway,

Surrey, B.C. V4N 0G2

Canada

Tel: 604-507-2181 Fax: 604-507-2187

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# ZINCO MINING CORPORATION

## Consolidated Balance Sheets

	<b>December 31, 2010</b>	September 30, 2010
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,034,342	\$ 10,133
Accounts receivable	12,979	9,920
Prepaid expenses	972	971
<b>Total current assets</b>	<b>1,048,293</b>	21,024
<b>Equipment and vehicle</b> (Note 5)	<b>6,517</b>	6,760
<b>Mineral interests</b> (Note 6)	<b>2,772,495</b>	2,770,340
<b>Total assets</b>	<b>\$ 3,827,305</b>	<b>\$ 2,798,124</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 211,286	\$ 258,380
<b>Total current liabilities</b>	<b>211,286</b>	258,380
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 7)	<b>8,881,345</b>	7,730,437
<b>Contributed surplus</b> (Note 7)	<b>1,537,158</b>	1,270,355
<b>Deficit</b>	<b>(6,802,484)</b>	(6,461,048)
<b>Total shareholders' equity</b>	<b>3,616,019</b>	2,539,744
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,827,305</b>	<b>\$ 2,798,124</b>

Nature of operations and going concern (Note 1)

Subsequent Events (Note 14)

*The accompanying notes are an integral part of these consolidated financial statements.*

On behalf of the Board:

“Alastair J. Sinclair”  
Alastair J. Sinclair

“David Elgee”  
David Elgee

# ZINCO MINING CORPORATION

Consolidated Statements of Loss, Comprehensive Loss and Deficit  
For the three months ended December 31,  
(Unaudited)

	2010	2009
<b>Expenses</b>		
Amortization	\$ 243	\$ 393
Bank charges	500	450
Consulting fees	9,000	12,900
Foreign exchange loss (gain)	1,331	3,310
General prospecting costs (recovery)	13,977	1,516
Management fees	8,550	22,569
Office and sundry	296	1,704
Professional fees	24,729	17,467
Rent	750	600
Stock-based compensation (Note 7)	272,536	145,515
Telephone	449	35
Transfer agent and filing fees	8,124	2,865
Travel and promotion	951	2,228
	<b>341,436</b>	<b>211,552</b>
<b>Loss before the following</b>	<b>(341,436)</b>	<b>(211,552)</b>
<b>Other Income – Interest</b>	<b>—</b>	<b>12</b>
<b>Loss and comprehensive loss for the period</b>	<b>(341,436)</b>	<b>(211,540)</b>
<b>Deficit, beginning of period</b>	<b>(6,461,048)</b>	<b>(5,941,484)</b>
<b>Deficit, end of period</b>	<b>\$ (6,802,484)</b>	<b>\$ (6,153,024)</b>
<b>Basic and diluted loss per period</b>	<b>\$ (0.012)</b>	<b>\$ (0.008)</b>
<b>Weighted average number of shares outstanding (Note 8)</b>	<b>29,274,752</b>	<b>25,112,649</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# ZINCO MINING CORPORATION

Consolidated Statements of Cash Flows  
For the three months ended December 31,  
(Unaudited)

	2010	2009
<b>Operating activities</b>		
Loss for the period	\$ (341,436)	\$ (211,540)
Add items not involving cash		
Amortization	243	393
Stock-based compensation	272,536	145,515
Change in non-cash working capital balances related to operations:		
Accounts receivable	(3,059)	(5,252)
Prepaid expenses	—	972
Accounts payable and accrued liabilities	58,918	(46,914)
<b>Cash used in operating activities</b>	<b>(12,798)</b>	<b>(116,826)</b>
<b>Investing activities</b>		
Acquisition of mineral interests and exploration costs	(168)	11,100
<b>Cash used in investing activities</b>	<b>(168)</b>	<b>11,100</b>
<b>Financing activities</b>		
Proceeds from issuance of shares	1,037,175	100,000
<b>Cash provided by financing activities</b>	<b>1,037,175</b>	<b>100,000</b>
<b>Increase (Decrease) in cash and cash equivalents during the period</b>	<b>1,024,209</b>	<b>(5,726)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>10,133</b>	<b>37,946</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,034,342</b>	<b>\$ 32,220</b>
<b>Supplemental cash flow information</b>		
Interest paid in cash	\$ —	\$ —
Income taxes paid in cash	\$ —	\$ —

Supplemental disclosure with respect to cash flows (Note 13)

*The accompanying notes are an integral part of these consolidated financial statements.*

# ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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## 1. Nature of Operations and Going Concern

Zinco Mining Corporation [the “Company”] was incorporated under the laws of British Columbia, Canada on March 14, 1983. The Company received approval to change its name to Zinco Mining Corporation on January 26, 2007.

The Company is considered to be in the exploration stage. The Company in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation.

The ability of the Company to continue as a going concern is dependent on the continued financial support from its directors, public equity financing, or achieving profitable operations in the future which cannot be predicted at this time. These statements do not reflect adjustments to carrying values and classifications of the assets and liabilities that might be necessary should the Company be unable to continue realizing its assets and discharging its liabilities in the normal course of business.

During the quarter ended December 31, 2010, the Company received a total of \$1,145,175 from the net proceeds of a private placement and from the exercise of options and warrants. As a result, the Company has enough funds on hand to meet its working capital and mineral property exploration needs for the next 12 months. Beyond this time period, The Company will need funding to further advance its mineral properties, and to meet long term administration cost requirements.

## 2. Basis of presentation

The interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year except the comparative figures for the balance sheet are for the fiscal year ended September 30, 2010. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual financial statements. Certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been condensed or omitted. These interim period financial statements should be read together with the audited financial statements and the accompanying notes included in the Company’s latest annual report.

## 3. Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of Zinco Mining Corporation and its wholly-owned subsidiary, Minera Croesus S.A. de C.V. (“Minera”), a company incorporated in Mexico. All inter-company balances and transactions have been eliminated.

## ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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(b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles of Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported during the period. Actual results may differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of less than 90 days and are readily convertible to cash.

(d) Equipment

Equipment is recorded at cost less accumulated amortization and is amortized over their estimated useful lives at the following rates:

Vehicle	30% per annum, declining-balance basis
Exploration equipment	20% per annum, declining-balance basis
Computer equipment	30% per annum, declining-balance basis

(e) Mineral interests

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If minerals are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

## ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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### 3. Significant Accounting Policies, continued

(f) Property option agreement

From time to time, the Company may acquire or dispose of mineral properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

(g) Loss per share

The calculation of basic loss per share is based on net loss divided by the weighted-average number of common shares outstanding during the year. Diluted earnings (loss) per share reflect the assumed conversion of all dilutive securities using the treasury stock method. For the periods presented, the calculation of loss per share on a diluted basis excluded all potential common shares because the effect was anti-dilutive.

(h) Stock-based compensation

The Company has a stock option plan as described in note 7. The fair value method is used to determine the expense for stock-based awards granted to employees and non-employees. Under the fair value method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model with assumptions described in note 7. The compensation cost is expensed over the vesting period with a corresponding credit to contributed surplus. Consideration paid on the exercise of stock options plus the amount of previously recognised expense is credited to share capital when the options are exercised.

(i) Foreign currency translation

The Company's functional currency is the Canadian dollar. Foreign currency transactions and the accounts of its subsidiary, which is considered to be an integrated foreign operation, are translated into Canadian dollars using the temporal method. Under this method, assets and liabilities in foreign currencies related to integrated foreign operations are translated into Canadian dollars using current exchange rates at the balance sheet dates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions, except for amortization, which is translated at the historical exchange rate of the corresponding non-monetary assets. Exchange gains and losses arising on translation are included in operations in the period incurred

## ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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### 3. Significant Accounting Policies, continued

(j) Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(k) Asset Retirement Obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at September 30, 2010 and September 30, 2009 the Company did not have any significant asset retirement obligations.

(l) Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

(m) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

## ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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### 3. Significant Accounting Policies, continued

(m) Financial instruments, continued

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

### 4. Changes in Accounting Policies and Recent Accounting Pronouncements

During the fiscal year ended September 30, 2010, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

*Financial instruments (Section 3862)*

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 8 for relevant disclosures.

*Goodwill and intangible assets*

The CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The new standard was adopted by the Company effective October 1, 2009, and there was no impact to the Company's financial statements.

#### **New Accounting Standards Not Yet Adopted**

*International Financial Reporting Standards*

The Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company, the transition date will be effective October 1, 2011 and the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011 will be required. Accordingly, as part of the Company's transition plan management has been reviewing IFRS information; attending seminars and webinars related to the changeover; and will prepare additional data and internal reports during 2010 for comparative purposes in 2011. Also as part of its plan, the Company will be providing training to its staff and consulting with its auditors on appropriate changes and disclosures that may be required for the Company and its subsidiaries.

# ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Unaudited)

## 4. Changes in Accounting Policies and Recent Accounting Pronouncements, continued

### *Business combinations, consolidated financial statements and non-controlling interest*

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

## 5. Equipment and Vehicle

	December 31, 2010		
	Cost	Accumulated Amortization	Net book Value
Exploration equipment	14,128	7,611	6,517

  

	September 30, 2010		
	Cost	Accumulated Amortization	Net book Value
Exploration equipment	\$ 14,128	\$ 7,368	\$ 6,760

**ZINCO MINING CORPORATION**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)***6. Mineral Interests**

	Balance September 30, 2009	Additions	Write-offs	Balance December 31, 2010
<b>Almatea, Jalisco State, Mexico</b>				
Deferred exploration costs	\$ 589,665	\$ 3	\$ —	\$ 589,668
<b>Cabrel, Jalisco State, Mexico</b>				
Deferred exploration costs	187,529	129	—	187,658
<b>Canton, Jalisco State, Mexico</b>				
Acquisition costs	42	—	—	42
Deferred exploration costs	143,036	36	—	143,072
	143,078	36	—	143,114
<b>El Maple/La Diana, Jalisco State, Mexico</b>				
Acquisition costs	48,406	—	—	48,406
Deferred exploration costs	1,649,686	1,987	—	1,651,673
	1,698,092	1,987	—	1,700,079
<b>El Volantin, Jalisco State, Mexico</b>				
Deferred exploration costs	151,976	—	—	151,976
<b>Total</b>	<b>\$ 2,770,340</b>	<b>\$ 2,155</b>	<b>\$ —</b>	<b>\$ 2,772,495</b>

The following is a summary of deferred exploration costs incurred during the period ended December 31, 2010:

	Almatea	Cabrel	Canton	El Maple/La Diana	Total
Acquisition costs	\$ —	\$ —	\$ —	\$ —	\$ —
Geological consulting	—	—	—	1,987	1,987
Mining taxes	3	129	36	—	168
<b>Total</b>	<b>3</b>	<b>129</b>	<b>36</b>	<b>1,987</b>	<b>2,155</b>

Mineral properties of Zinco Mining Corporation are all concentrated in or near the Cuale district, east of Puerto Vallarta, Mexico. They are comprised of the following:

Almatea, Jalisco State, Mexico: This property lies east of the el Maple property and was acquired by staking. The Company holds a 100% interest in this property.

Cabrel, Jalisco State, Mexico: The Cabrel property is located southeast of Puerto Vallarta, Mexico, and was acquired by staking. The Company holds a 100% interest in this property.

**ZINCO MINING CORPORATION**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)***6. Mineral Interests, continued**

Canton, Jalisco State, Mexico: The Canton property lies between the El Maple and Almatea properties and was staked to join the properties in a contiguous unit. The Company holds a 100% interest in this property.

El Maple/La Diana, Cuale district, Mexico: This property is located south of Puerto Vallarta, and consists of the El Maple Fraccion I, El Maple and La Diana claims. All of the claims were acquired by staking, and the Company holds a 100% interest in this property.

El Volantin, Jalisco State, Mexico: This property extends from the Cabrel property on the south to the El Maple and Almatea properties on the north, all of the claims were acquired by staking, and the Company holds a 100% interest in the property.

	Balance September 30, 2009	Additions	Write-offs	Balance December 31, 2009
<b>Almatea, Jalisco State, Mexico</b>				
Deferred exploration costs	\$ 545,925	2,103	\$ —	548,028
<b>Cabrel, Jalisco State, Mexico</b>				
Deferred exploration costs	169,209	6,344	—	175,553
<b>Canton, Jalisco State, Mexico</b>				
Acquisition costs	42	—	—	42
Deferred exploration costs	129,221	142	—	129,363
	129,263	142	—	129,405
<b>El Maple/La Diana, Jalisco State, Mexico</b>				
Acquisition costs	48,406	—	—	48,406
Deferred exploration costs	1,622,905	8,167	—	1,631,072
	1,671,311	8,167	—	1,679,478
<b>El Volantin, Jalisco State, Mexico</b>				
Deferred exploration costs	109,806	4,936	—	114,742
<b>Total</b>	<b>\$ 2,625,514</b>	<b>21,692</b>	<b>\$ —</b>	<b>2,647,206</b>

**ZINCO MINING CORPORATION**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)***6. Mineral Interests, continued**

The following is a summary of deferred exploration costs incurred during the period ended December 31, 2009:

	Almatea	Cabrel	Canton	El Volantin	El Maple/La Diana	Total
Acquisition costs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assays & analysis	—	—	—	—	172	172
Drilling	—	—	—	—	—	—
Geological consulting	1,140	3,881	—	1,618	7,074	13,713
Mining taxes	786	334	142	3,318	3	4,583
Supplies and Miscellaneous	—	1,474	—	—	143	1,617
Travel	177	655	—	—	775	1,607
<b>Total</b>	<b>\$ 2,103</b>	<b>\$ 6,344</b>	<b>\$ 142</b>	<b>\$ 4,936</b>	<b>\$ 8,167</b>	<b>\$21,692</b>

**7. Share Capital**

The following is a description of the authorized and issued share capital:

- (a) Authorized: Unlimited common shares without par value
- (b) Issued:

	Shares	Amount
<b>Balance, September 30, 2009</b>	24,938,736	\$ 7,183,280
Issued for cash pursuant to a private placement at \$0.10 per share	1,000,000	100,000
Issued for cash pursuant to exercise of stock options at prices ranging from \$0.10 - \$0.15 per share, including \$147,157 contributed surplus attributed to stock-based compensation recognized in previous periods	650,000	232,157
Issued for cash pursuant to a private placement at \$0.20 per share net of finders' fee	250,000	45,000
Issued for cash pursuant to a private placement at \$0.20 per share net of finders' fee	1,000,000	170,000
<b>Balance, September 30, 2010</b>	27,838,736	7,730,437
Issued for cash pursuant to a private placement at \$0.10 per share net of finders' fees	5,000,000	925,000
Issued for debt at \$0.20 per share	540,000	108,000
Issued for cash pursuant to exercise of warrants at \$0.11 per share	1,000,000	110,000
Issued for cash pursuant to exercise of stock options at \$0.15 per share, including \$5,733 contributed surplus attributed to stock-based compensation recognized in previous periods	14,500	7,908
<b>Balance, December 31, 2010</b>	34,393,236	\$ 8,881,345

## ZINCO MINING CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)*

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### 7. Share Capital, continued

(b) Issued, continued:

During the three months ended December 31, 2010 the Company announced and closed a private placement of 5,000,000 units at \$0.20 per unit, each unit consisting of one common share and one-half of one share purchase warrant, each full warrant entitling the holder to buy one common share for \$0.25 for a period of two years. The Company paid \$75,000 in finders' fees in connection with this placement; settled \$108,000 in debt through the issuance of 540,000 common shares; and issued 1,014,500 common shares pursuant to the exercise of options and warrants, for gross proceeds of \$112,175.

During the year ended September 30, 2010 the Company announced and closed a private placement of 1,000,000 units at \$0.10 per unit, each unit consisting of one common share and one share purchase warrant to purchase one common share for \$0.11 for a period of two years; closed a private placement of 250,000 units at \$0.20 per unit, each unit consisting of one common share and one-half share purchase warrant to purchase one common share for \$0.26 for a period of two years; and announced and closed a private placement of 1,000,000 units at \$0.20, consisting of one common share and one half share purchase warrant to purchase one common share for \$0.26 for a period of two years. Also during the year 50,000 stock options were exercised at \$0.15 per share; 250,000 stock options were exercised at \$0.10 per share and 350,000 stock options were exercised at \$0.15 per share.

In relation to the private placements closed during the fiscal year ended September 30, 2010 the Company granted 100,000 agent's warrants with a term of two years, exercisable at \$0.26. The fair value of the agent's warrants being \$15,000 was determined using the Black-Scholes model. The assumptions used were 2 years expected life, risk free interest rate of 1.8%, volatility of 100% and a dividend yield of zero.

(c) Escrow Shares

During the comparative period 56,250 common shares were released from escrow, leaving the balance of shares in escrow at Nil. The release of the balance of these shares was staged over a period of six years and ended on December 18, 2009.

(d) Stock options

The Company has established a stock option plan the purpose of which is to attract, retain and motivate directors, officers, employees and persons engaged to provide ongoing management and consulting services ("service providers") by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and benefit from its growth. The maximum number of shares which may be issued under the plan is fixed at 4,898,947. This number is subject to adjustment resulting from changes in the share capital of the Company. Such adjustments are subject to approval by the TSX Venture Exchange and by the shareholders of the Company. The number of shares reserved for issuance to any one person may not exceed 5% of the issued and outstanding shares at the date of such grant.

The option price of the shares which are the subject of any option shall in no circumstances be less than the market price of the shares at the date of the grant of the option.

**ZINCO MINING CORPORATION**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

*(Unaudited)***7. Share Capital, continued**

## (d) Stock options, continued

A summary of the status of the Company's stock option plan as of December 31 and September 30, 2009, and changes during the periods ending on those dates is presented below:

	<b>December 31, 2010</b>		<b>September 30, 2010</b>	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,840,000	\$0.15	940,000	\$0.15
Granted	1,400,000	\$0.20	1,550,000	\$0.14
Exercised	(14,500)	\$0.15	(650,000)	\$0.13
Expired/cancelled	(500,000)	\$0.15	—	—
Outstanding and exercisable at end of period	2,725,000	\$0.18	1,840,000	\$0.15

During the quarter ended December 31, 2010 the Company granted incentive stock options to purchase up to 1,400,000 shares at \$0.20 for a period of five years, cancelled 500,000 stock options and 14,500 were exercised at \$0.15.

During the year ended September 30, 2010 all stock options outstanding at September 30, 2009 were repriced to \$0.15; in the case of options granted to insiders, the re-pricing was approved by disinterested shareholders at the annual general meeting on March 15, 2010. The Company also granted incentive stock options to purchase up to 1,300,000 shares at \$0.15 for a period of five years and 250,000 exercisable at \$0.10 for a period of five years. 650,000 stock options at a weighted average price of \$0.13 were exercised during the period.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price
\$0.15 - \$0.20	2,725,000	3.76	\$0.18

The fair values of the stock options granted during the periods ending December 31, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2010</b>	<b>2009</b>
Risk-free interest rate	2.45%	2.81%
Dividend yield	0%	0%
Expected volatility	121%	154%
Expected term	5 Years	5 Years

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December 31, 2010 and 2009

(Unaudited)

### 7. Share Capital, continued

#### (e) Contributed surplus

The following table sets forth the continuity of contributed surplus for the periods ended December 31, and September 30, 2010:

Balance September 30, 2009	\$ 1,194,056
Stock-based compensation expense during the period	208,456
Issuance of 100,000 agent's warrants	15,000
Reallocation to share capital the estimated fair value of 650,000 stock options that were exercised during the period	(147,157)
Balance September 30, 2010	\$ 1,270,355
Stock-based compensation expense during the period	272,536
Reallocation to share capital the estimated fair value of 14,500 stock options that were exercised during the period	(5,733)
<b>Balance December 31, 2010</b>	<b>\$ 1,537,158</b>

#### (f) Share Purchase Warrants

A summary of share purchase warrants outstanding at December 31, and September 30, 2010 is as follows:

	December 31, 2010		September 30, 2009	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	1,725,000	\$0.17	—	—
Expired	—	—	—	—
Exercised	(1,000,000)	\$0.11	—	—
Granted	2,500,000	\$0.25	1,725,000	\$0.17
Outstanding at end of the period	3,225,000	\$0.25	1,725,000	\$0.17
Exercisable at end of the period	3,225,000	\$0.25	1,725,000	\$0.17

Each share purchase warrant entitles the holder to acquire one common share of the Company.

### 8. Basic and Diluted Loss per share

The basic and diluted loss per share is calculated based on the following at December 31:

	2010	2009
Weighted average number of common shares outstanding	29,274,752	25,112,649

The calculation of loss per share is based on net loss divided by the weighted-average number of common shares outstanding during the year. The effect of options and warrants under the stock option plan is not presented as it would have an anti-dilutive effect on the loss per share.

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### 9. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's cash and cash equivalents under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable. The Company believes it has no significant credit risk, as accounts receivable primarily relate to input tax credits.

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash and cash equivalents balance of \$1,034,342 (September 30, 2010 - \$10,133) to settle current liabilities of \$211,286 (September 30, 2010 - \$258,380). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is in the process of raising further funding to cover the working capital deficiency (Note 14).

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### (a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of December 31, 2010, the Company had \$1,000,000 (September 30, 2010 - \$Nil) invested in investment-grade short-term deposit certificates.

##### (b) Foreign currency risk

As at December 31, 2010, the Company's expenditures are in Canadian dollars and Mexican pesos, and any future equity raised is expected to be predominantly in Canadian dollars. As at December 31, 2010, the Company has accounts payable denominated in Mexican Pesos of 362,284, accounts receivable of 77,132 Mexican Pesos and cash of 126,274 Mexican Pesos, with an approximate exchange rate of 0.08 to Canadian dollars. For each 10% change in the Canadian dollar against the Mexican Peso, a \$1,281 gain/loss would arise.

## ZINCO MINING CORPORATION

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(Unaudited)

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### 8. Financial Instruments, *continued*

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### 10. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral interests and to maintain a flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity as well as cash, receivables and current liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash.

The Company does not have any major capital expenditures committed for the coming year.

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met.

### 11. Related Party Transactions

- (a) The Company incurred the following expenses to December 31, to its directors or corporations controlled by its directors:

	2010	2009
Accounting fees (included in professional fees)	\$ 10,500	\$ 10,500
Geological fees, general contracting, and equipment rentals	15,964	15,270
Legal fees (included in professional fees)	7,090	5,450
Management fees	8,550	22,569
	<u>\$ 42,104</u>	<u>\$ 53,789</u>

- (b) Accounts payable and accrued liabilities includes \$23,237 (2009 - \$57,515) due to directors and/or officers of the Company.

These transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and which the management believes reflect prevailing market rates.

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*(Unaudited)*

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### **12. Segmented Information**

The Company operates in one industry, being the acquisition, exploration and development of mineral interests

The Company's mineral interests and equipment are owned through the Mexican subsidiary and held in Mexico.

### **13. Supplemental Disclosure with Respect to Cash Flows**

Significant non-cash transactions for the period ended December 31, 2010 included incurring mineral property expenditures of \$1,987 (2009 - \$32,791) through accounts payable.

### **14. Subsequent Events**

Subsequent to December 31, 2010 the Company issued 218,000 common shares pursuant to the exercise of options and warrants, for gross proceeds of \$49,200.