

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000023778-96-000028**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### **CONSOLIDATED SILVER CORP**

CIK: **23778** | IRS No.: **820288840** | State of Incorporation: **ID** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-04846** | Film No.: **96664933**  
SIC: **1090** Miscellaneous metal ores

Mailing Address  
C/O HECLA MINING CO  
6500 MINERAL DRIVE  
COEUR D ALENE ID 83814

Business Address  
6500 MINERAL DR  
BOX C-8000  
COEUR D ALENE ID  
83814-8788  
2087694100

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-4846-3  
-----

CONSIL CORP.

-----  
(Exact name of registrant as specified in its charter)

Idaho 82-0288840  
-----

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Suite 500, 625 Howe Street Vancouver, British Columbia, Canada V6C 2T6  
-----

(Address of principal executive offices) (Zip Code)

604-331-0844  
-----

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for at least the past 90 days. Yes XX . No .  
-----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding October 31, 1996
Common stock, par value \$0.10 per share	9,449,757 shares

CONSIL CORP.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1996

I N D E X

	PAGE
PART I. - Financial Information	
Item 1 - Consolidated Balance Sheets - September 30, 1996 and December 31, 1995	3
- Consolidated Statements of Operations and Accumulated Deficit - Three Months and Nine Months Ended September 30, 1996 and 1995	4
- Consolidated Statements of Cash Flows - Nine Months Ended September 30, 1996 and 1995	5
- Notes to Consolidated Financial Statements	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	8
PART II. - Other Information	
Item 1 - Legal Proceedings	12
Item 6 - Exhibits and Reports on Form 8-K	12

-2-

3

PART I - FINANCIAL INFORMATION  
 CONSIL CORP.  
 Consolidated Balance Sheets (Unaudited)  
 (U.S. Dollars)  
 -----

<TABLE>  
 <CAPTION>

	September 30, 1996	December 31, 1995
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 241,845	\$ 588,787

Accounts receivable	5,464	1,410
Income tax refund receivable	125,197	46,344
Deferred incomes taxes	33,000	33,000
Other current assets	32,922	7,957
	-----	-----
Total current assets	438,428	677,498
	-----	-----
Property, plant and equipment:		
Plant, equipment and facilities	29,094	5,434
Less - Accumulated depreciation	(4,276)	(494)
	-----	-----
Deferred income taxes	24,818	4,940
	52,619	66,000
	-----	-----
Total assets	\$ 515,865	\$ 748,438
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:		
Accounts payable - Hecla Mining Company	\$ 187,114	\$ 279,598
Accounts payable and accrued expenses	14,085	3,069
Note payable - Hecla Mining Company	500,000	- -
	-----	-----
Total current liabilities	701,199	282,667
	-----	-----
Stockholders equity (deficit):		
Preferred stock; 1996 and 1995 - \$0.25 par value, authorized, 10,000,000 shares; issued and outstanding, none	- -	- -
Common stock; \$0.10 par value; authorized, 20,000,000 shares; issued 9,455,689 shares	945,569	945,569
Discount on common stock	(190,709)	(190,709)
Capital surplus	1,356,815	1,356,815
Accumulated deficit	(2,293,548)	(1,645,880)
Less: Common stock reacquired at cost; 1996 - 5,932 shares; 1995 - 6 shares	(3,461)	(24)
	-----	-----
Total shareholders' equity (deficit)	(185,334)	465,771
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 515,865	\$ 748,438
	=====	=====

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

</TABLE>

-3-

4

PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

Consolidated Statements of Operations and Accumulated Deficit (Unaudited)  
(U.S. Dollars)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenue:				
Rental income	\$ - -	\$ 1,500	\$ - -	\$ 4,500
Transfer fees	- -	256	152	604
Interest	186	9,459	3,418	29,235
Miscellaneous	- -	20,000	- -	20,460
	-----	-----	-----	-----
	186	31,215	3,570	54,799

Expenses:				
General and administrative expenses	102,886	66,576	266,272	122,833
Acquisition related costs	42,344	- -	42,344	- -
Interest expense	5,442	- -	5,442	- -
Exploration	250,304	2,720	434,508	2,720
Depreciation	1,528	222	3,782	222
	402,504	69,518	752,348	125,775
Net loss before income tax benefit	(402,318)	(38,303)	(748,778)	(70,976)
Income tax benefit	25,625	- -	101,110	2,605
Net loss	(376,693)	(38,303)	(647,668)	(68,371)
Deficit at beginning of period	(1,916,855)	(1,161,217)	(1,645,880)	(1,131,149)
Deficit at end of period	\$ (2,293,548)	\$ (1,199,520)	\$ (2,293,548)	\$ (1,199,520)
Net loss per share of common stock	\$ (0.04)	\$ - -	\$ (0.07)	\$ (0.01)
Cash dividends per share	\$ - -	\$ - -	\$ - -	\$ - -
Weighted average number of common shares outstanding	9,449,757	8,414,016	9,450,970	8,233,461

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

</TABLE>

-4-

5

PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

Consolidated Statements of Cash Flows (Unaudited)  
(U.S. Dollars)

<TABLE>

<CAPTION>

	Nine Months Ended	
	September 30, 1996	September 30, 1995
	<C>	<C>
Operating activities:		
Net loss	\$ (647,668)	\$ (68,371)
Noncash elements included in net loss:		
Depreciation	3,782	222
Deferred income tax provision	13,381	- -
Change in:		
Accounts receivable	(4,054)	(981)
Income tax refund receivable	(78,853)	(2,635)
Other current assets	(24,965)	(2,054)
Accounts payable and accrued expenses	(81,468)	42,401

Net cash used by operating activities	(819,845)	(31,418)
Investing activities:		
Additions to property, plant and equipment	(23,660)	(5,434)
Net cash used by investing activities	(23,660)	(5,434)
Financing activities:		
Proceeds from note payable	500,000	- -
Acquisition of treasury stock	(3,437)	- -
Net cash provided by financing activities	496,563	- -
Net decrease in cash and cash equivalents	(346,942)	(36,852)
Cash and cash equivalents at beginning of period	588,787	753,486
Cash and cash equivalents at end of period	\$ 241,845	\$ 716,634

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

</TABLE>

-5-

6

PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The notes to the consolidated financial statements as of December 31, 1995, as set forth in ConSil Corp.'s (the Company or ConSil) 1995 Annual Report on Form 10-K, substantially apply to these interim consolidated financial statements and are not repeated here. All amounts are in U.S. dollars unless otherwise indicated.

Note 2. The financial information given in the accompanying unaudited interim financial statements reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods reported. All such adjustments are of a normal recurring nature. All financial statements presented herein are unaudited. However, the balance sheet as of December 31, 1995, was derived from the audited consolidated balance sheet described in Note 1 above.

Note 3. The components of the income tax benefit for the nine months ended September 30, 1996 and 1995 are as follows (in thousands):

	1996	1995
Current:		
State income tax benefit	\$ 28,970	\$ - -
Federal income tax benefit	85,521	2,605
Total current benefit	114,491	2,605
Deferred provision	(13,381)	- -

Total	----- \$101,110 =====	----- \$ 2,605 =====
-------	-----------------------------	----------------------------

Note 4. At September 30, 1996, the Company had 9,449,757 common shares outstanding of which Hecla Mining Company (Hecla, the majority shareholder of the Company) owned 7,418,300 shares or 78.5% of the outstanding shares. Pursuant to an agreement between the Company's wholly owned Mexican subsidiary, Minera ConSil, S.A de C.V. (Minera ConSil) and Hecla Mining Company's wholly owned Mexican subsidiary, Minera Hecla, S.A. de C.V. (Minera Hecla), the Company recorded exploration expense totaling approximately \$351,000 in the first nine months of 1996 in connection with services performed by Minera Hecla under the direction of the management of Minera ConSil at the Ojo Caliente and Sombrerete projects. In addition, the Company incurred exploration expenses charged by

-6-

7

PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

Hecla Mining Company of approximately \$24,179 for the first nine months of 1996 at the Sombrerete project.

On June 28, 1996, ConSil and Hecla entered into a loan agreement whereby Hecla agreed to make available to ConSil a loan not to exceed \$500,000. Under the terms of the loan agreement, ConSil agreed to pay interest on the outstanding balance at the prime interest rate specified in the Wall Street Journal, plus one and one-half percent per year until paid. The loan is payable upon demand by Hecla, and is due in its entirety on or before December 31, 1996. In order to secure the loan, ConSil has caused its wholly owned subsidiary Minera ConSil, S.A. de C.V. to grant Hecla's wholly owned subsidiary, Minera Hecla, S.A. de C.V. its rights under that certain Letter Agreement dated February 9, 1996, by and between ConSil Corp. and Grupo Catorce, S.A. de C.V., also known as the Sombrerete Agreement. The loan agreement also places certain restrictions on the Company, including restrictions on assets, indebtedness, increases in compensation, loans or advances to shareholders, directors or employees, capital stock, and hiring of new employees. These restrictions can be altered with the prior consent of Hecla. At September 30, 1996, there was \$500,000 outstanding under the loan agreement with Hecla.

In addition to the above transactions, the Company incurred general and administrative expenses charged by Hecla of approximately \$19,836 and \$52,231 for the first nine months of 1996 and 1995, respectively.

Note 5. The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") in the United States. The differences between U.S. GAAP and Canadian GAAP and effects on shareholders' deficit and the net loss at September 30, 1996 are as follows:

Total stockholders' deficit at September 30, 1996	
per U.S. generally accepted accounting principles	\$ (185,334)
Adjustments to conform with Canadian generally	
accepted accounting principles:	
Deferred income tax assets	(85,619)
	-----

Total stockholders' deficit at September 30, 1996 per Canadian generally accepted accounting principles	\$ (270,953) =====
---------------------------------------------------------------------------------------------------------------	-----------------------

-7-

8

PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

Net loss for the nine months ended September 30, 1996 per U.S. generally accepted accounting principles	\$ (647,668)
Adjustments to conform with Canadian generally accepted accounting principles	
Deferred income tax provision	13,381 -----
Net loss for the nine months ended September 30, 1996 per Canadian generally accepted accounting principles	\$ (634,287) =====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Except for the historical information contained herein, the matters discussed that are forward-looking statements involve risks and uncertainties, including the timely development of future projects (such as the Ojo Caliente and Sombrerete projects), the impact of metals prices, changing market conditions and regulatory environment, and other risks detailed from time to time in the Company's Form 10-K and Form 10-Qs filed with the United States Securities and Exchange Commission. Actual results may differ materially from those projected or implied. Forward-looking statements included herein represent the Company's judgment as of the date of this filing. The Company disclaims, however, any intent or obligation to update these forward-looking statements.

RESULTS OF OPERATIONS

FIRST NINE MONTHS 1996 COMPARED TO FIRST NINE MONTHS 1995

The Company reported a net loss of \$647,668 or \$0.07 per share, in the first nine months of 1996 compared to a net loss of \$68,371 in the same period in 1995. The increase in net loss is primarily due to (1) an increase in expenses of \$626,573, consisting of increased exploration expenditures totaling \$431,788, most notably for the Ojo Caliente and Sombrerete exploration projects, acquisition and due diligence cost of \$42,344 incurred in connection with Minas La Colorada, S.A. de C.V., and increased general and administrative expenses of \$143,439 due to management salaries and costs associated with the Vancouver office in the 1996 period and (2) decreased



PART I - FINANCIAL INFORMATION (Continued)

CONSIL CORP.

revenue of \$51,299. These were partly offset by a \$98,505 increase in the income tax benefit.

THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1995

The Company reported a net loss of \$376,693, or \$0.04 per share in the third quarter of 1996 compared to a net loss of \$38,303 for the same period in 1995. The increase in net loss is primarily due to (1) an increase in expenses of \$332,986, consisting of increased exploration expenditures totaling \$247,584, most notably for the Ojo Caliente and Sombrerete exploration projects, acquisition and due diligence costs of \$42,344 incurred in connection with Minas La Colorada, S.A. de C.V., and increased general and administrative expenses of \$36,310 due to management salaries and costs associated with the Vancouver office in the 1996 period and (2) decreased revenue of \$31,029. These were partly offset by a \$25,625 increase in the income tax benefit.

FINANCIAL CONDITION AND LIQUIDITY

At September 30, 1996, assets totaled \$515,865 and shareholders' deficit totaled \$185,334. Cash and cash equivalents decreased by \$346,942 to \$241,845 at September 30, 1996 from \$588,787 at the end of 1995. Operating activities used \$819,845 of cash during the first nine months of 1996. The primary uses of cash for operating activities were for exploration expenditures on the Ojo Caliente and Sombrerete exploration projects, and general and administrative expenses.

The Company's financing activities provided \$496,563 of cash during the first nine months of 1996. Cash was provided by borrowings under the note from Hecla of \$500,000 partially offset by acquisition of treasury stock totaling \$3,437.

The Company's investing activities used \$23,660 of cash during the first nine months of 1996 for acquisition of office equipment.

Working capital decreased \$657,602 during the first nine months of 1996, from \$394,831 at December 31, 1995 to a

## PART I - FINANCIAL INFORMATION (Continued)

## CONSIL CORP.

negative \$262,771 at September 30, 1996. The decrease in working capital is primarily the result of funding operating losses associated with the exploration of the Company's properties.

On June 28, 1996, ConSil and Hecla entered into a loan agreement whereby Hecla agreed to make available to ConSil a loan not to exceed \$500,000. Under the terms of the loan agreement, ConSil agreed to pay interest on the outstanding balance at the prime interest rate specified in the Wall Street Journal, plus one and one-half percent per year until paid. The loan is payable upon demand by Hecla, and is due in its entirety on or before December 31, 1996. In order to secure the loan, ConSil has caused its wholly owned subsidiary Minera ConSil, S.A. de C.V. to grant Hecla's wholly owned subsidiary, Minera Hecla, S.A. de C.V. its rights under that certain Letter Agreement dated February 9, 1996, by and between ConSil Corp. and Grupo Catorce, S.A. de C.V., also known as the Sombrerete Agreement. The loan agreement also places certain restrictions on the Company, including restrictions on assets, indebtedness, increases in compensation, loans or advances to shareholders, directors or employees, capital stock, and hiring of new employees. These restrictions can be altered with the prior consent of Hecla. At September 30, 1996, there was \$500,000 outstanding under the loan agreement with Hecla.

On July 22, 1996, the Company announced that it entered into a Letter of Intent with Minas La Colorada, S.A. de C.V. (MLC) for the acquisition of a 100% interest in MLC's silver mining operations, including its operating silver mine in the Chalchihuites mining district, state of Zacatecas, Mexico and a number of other exploration concessions. Consideration for the proposed acquisition is 9,000,000 shares of ConSil common stock and the assumption of \$2,500,000 in debt by ConSil. The acquisition is subject to due diligence, ConSil shareholder approval, approval by stock exchange and regulatory authorities and execution of a definitive agreement. The acquisition is also subject to the Company completing an equity financing sufficient to complete the acquisition, expand production at MLC's silver mine, and explore the exploration projects obtained in the proposed acquisition. During the third quarter of 1996, the Company completed its due diligence, including a study by independent consultants, which

-10-

## PART I - FINANCIAL INFORMATION (Continued)

## CONSIL CORP.

confirmed a sufficient reserve base at the mine to justify the Company's proposed capital investment. The parties are now negotiating the final terms for the definitive agreement. Due to a

number of uncertainties associated with the proposed acquisition, no assurance can be made that the acquisition will be completed.

At the Sombrerete property, the Company completed an eight hole, 1,820 meter diamond drill program during the third quarter of 1996. The drilling examined the main Pabellon and San Guillermo vein structures adjacent to old workings. The objective of the program was to discover additional ore which could be readily developed and mined. Although every hole intersected the vein structures, ore grades were not encountered. Based on the results of drilling, it appears the exploration targets at the Sombrerete property are at an earlier, less defined stage than previously anticipated.

The Company intends to finance planned expenditures partially through existing cash and cash equivalents. Existing cash and cash equivalents are not sufficient to fully fund planned expenditures. Management is also currently investigating raising additional capital via a common or preferred stock offering. Management anticipates an equity offering late in 1996, although there can be no assurance that the timing of an equity offering, or the ability to complete such an equity offering will be achieved. Further exploration work on the Ojo Caliente and Sombrerete projects is contingent upon the Company's ability to obtain the appropriate financing.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. SFAS No. 123 encourages all entities to adopt a fair value based method of accounting, but allows an entity to continue to measure compensation cost for those plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company will comply with the provisions of SFAS No. 123 on January 1, 1996, by presenting the pro-forma disclosure requirements of SFAS No. 123 in its 1996 annual financial statements.

-11-

12

## PART II - OTHER INFORMATION

### CONSIL CORP.

#### ITEM 1. LEGAL PROCEEDINGS

There are no pending legal proceedings.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

27 - Financial Data Schedule

##### (b) Reports on Form 8-K

Report on Form 8-K dated July 22, 1996, related to the Letter of

Intent signed with Minas La Colorada, S.A. de C.V. for acquisition of Mexican silver mine.

Items 2, 3, 4 and 5 of Part II are omitted from this report as inapplicable.

-12-

13

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSIL CORP.  
(Registrant)

Date: November 14, 1996      By /s/ Gerald G. Carlson  
-----  
Gerald G. Carlson, President

Date: November 14, 1996      By /s/ Stanley E. Hilbert  
-----  
Stanley E. Hilbert, Principal  
Accounting Officer



<TABLE> <S> <C>

<ARTICLE> 5

<CURRENCY> U.S. DOLLARS

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-END>	SEP-30-1996
<EXCHANGE-RATE>	1
<CASH>	241,845
<SECURITIES>	0
<RECEIVABLES>	130,661
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	438,428
<PP&E>	29,094
<DEPRECIATION>	(4,276)
<TOTAL-ASSETS>	515,865
<CURRENT-LIABILITIES>	701,199
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	945,569
<OTHER-SE>	(1,130,903)
<TOTAL-LIABILITY-AND-EQUITY>	515,865
<SALES>	0
<TOTAL-REVENUES>	3,570
<CGS>	0
<TOTAL-COSTS>	752,348
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	(748,778)
<INCOME-TAX>	101,110
<INCOME-CONTINUING>	(647,668)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(647,668)
<EPS-PRIMARY>	(0.07)
<EPS-DILUTED>	0

</TABLE>